June 11, 2012

Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Dear Director Cordray:

Enclosed for your consideration is the Report of the Small Business Review Panel ("Panel") that was convened on April 10, 2012, for the rulemaking by the Consumer Financial Protection Bureau ("Bureau") on Mortgage Loan Servicing under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Pursuant to section 609(b) of the Regulatory Flexibility Act (5 U.S.C. 609(b)), the Panel was convened by Dan Sokolov, the Bureau's Panel Chair and Deputy Associate Director for the Bureau's Division of Research, Markets, and Regulations. In addition to its Chair, the Panel consists of Dr. Winslow Sargeant, Chief Counsel for Advocacy of the Small Business Administration; Cass Sunstein, Administrator of the Office of Information and Regulatory Affairs in the Office of Management and Budget; and David Stein, Managing Counsel in the Bureau's Office of Regulations.

The Panel met with representatives of small entities that would be subject to the rule on April 24, 2012, to obtain their feedback on proposals that the Bureau is considering for Mortgage Loan Servicing. Before the meeting, the Bureau provided the representatives of the small entities with materials outlining the proposals under consideration and alternatives considered. In addition to meeting with the Panel, many of the representatives subsequently provided the Panel with written comments.

The Panel is appreciative of the thoughtful contributions made by the representatives of small entities who participated in this Panel process. The Panel recognizes that the time required for the participants to review materials, prepare for and participate in the meeting, and provide additional written comments was significant. While this participation at an early stage of the rulemaking is important, public participation and input during subsequent stages of the rulemaking will also assist in the development of a final rule. Therefore, the Panel hopes the participants will continue to be engaged in this rulemaking through the public comment process following publication of the proposed rule.

The Panel's findings and recommendations are based on the information available at the time the final Panel Report was prepared. The Bureau is continuing to conduct analyses and gather information as part of the rule development process. Any options identified by the Panel for reducing the rule's economic impact on small entities may require further consideration, analysis, and data collection by the Bureau to ensure that the options are practicable, enforceable, and consistent with TILA, RESPA, the Dodd-Frank Act, and their statutory purposes.

The complete Panel Report is attached, including background information on the proposals and significant alternatives under consideration by the Bureau that were reviewed by the Panel; a description of the types, and an estimate of the number, of small entities that would be subject to those proposals; a summary of the comments and recommendations of the small entity participants; the Panel's findings and recommendations; and attachments including certain materials presented to the small entity representatives. In this report, the Panel recommends that the Bureau seek additional information on potential impacts and consider certain alternatives that would reduce the burden on small entities.

[signatures to follow]

Sincerely,

Dan Sokolov
Chair
Small Business Review Panel
Bureau of Consumer Financial Protection

Dr. Winslow Sargeant
Chief Counsel for Advocacy
Office of Advocacy
U.S. Small Business Administration

Cass Sunstein
Administrator
Office of Information and Regulatory Affairs
Office of Management and Budget

David A. Stein
Managing Counsel
Office of Regulations
Bureau of Consumer Financial Protection

[signatures to June11, 2012, letter to Director Richard Cordray regarding Small Business Review Panel Report on Mortgage Loan Servicing]

FINAL REPORT

of the

Small Business Review Panel on
CFPB's Proposals Under Consideration for
Mortgage Servicing Rulemaking

June 11, 2012

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1. Introduction

Under the Regulatory Flexibility Act ("RFA"),[1] the Consumer Financial Protection Bureau ("CFPB" or the "Bureau") must convene and chair a Small Business Review Panel ("Panel") to consider the impact of considered rules and obtain feedback from representatives of the small entities that would be subject to the rule unless the CFPB plans to certify that the proposals under consideration will not have a significant economic impact on a substantial number of small entities.[2] The Panel consists of representatives from the CFPB, the Chief Counsel for Advocacy of the Small Business Administration ("SBA"), and the Administrator of the Office of Information and Regulatory Affairs within the Office of Management and Budget ("OMB").

This Panel Report addresses the CFPB's upcoming proposal concerning the mortgage servicing rulemaking. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, approved July 21, 2010) ("Dodd-Frank Act," "DFA," or the "Act")[3] imposes certain requirements concerning mortgage servicing that become self-executing and enforceable on January 21, 2013, unless final rules are issued on or before that date. The CFPB is also considering whether to propose additional standards to improve servicer information management and communications with troubled or delinquent borrowers.

This report includes the following:

- Background information on the proposals that are being considered by the CFPB and that were reviewed by the Panel;
- Information on the types of small entities that would be subject to those proposals and on the small entity representatives ("SERs") who were selected to advise the Panel;
- A summary of the Panel's outreach to obtain the advice and recommendations of those SERs;
- A discussion of the comments and recommendations of the SERs; and
- A discussion of the Panel findings and recommendations, focusing on the following statutory elements:[4]

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[1] RFA (Pub. L. 96-354, approved September 19, 1980; 94 Stat. 1164) is codified at 5 U.S.C. 601-612 (http://143.231.180.80/view.xhtml?path=/title5/part1/chapter6).
[2] Under section 609(b) of the RFA, as amended by the Small Business Regulatory Enforcement Fairness Act of 1996 ("SBREFA") and the Dodd-Frank Wall Street Reform and Consumer Protection Act, a Panel is required to be convened prior to the publication of the initial regulatory flexibility analysis ("IRFA") that the CFPB may be required to prepare under the RFA.
[3] Dodd-Frank Act, secs. 1418, 1420, 1463(a), and 1464(a) (http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf).
[4] *See* RFA section 603 (5 U.S.C. 603); RFA section 609(b)(5) (5 U.S.C. 609(b)(5)).

- A description of and, where feasible, an estimate of the number of small entities to which the proposals under consideration will apply;

- A description of projected reporting, recordkeeping, and other compliance requirements of the proposals under consideration, including an estimate of the classes of small entities which will be subject to the rule's requirements and the type of professional skills necessary for preparation of the report or record;

- An identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap, or conflict with the proposals under consideration; and

- A description of any significant alternatives to the proposals under consideration which accomplish the stated objectives of applicable statutes and which minimize any significant economic impact of the proposals under consideration on small entities.

This Panel Report will be included in the public rulemaking record. The CFPB will consider the Panel's findings when preparing the proposed rule and IRFA.

It is important to note that the Panel makes its report at a preliminary stage of rule development and this report should be considered in that light. The Panel's findings and discussion are based on the information available at the time the final Panel Report was prepared. Additional analyses may be conducted and additional information may be obtained by the CFPB during the remainder of the rule development process. At the same time, the Panel Report provides the Panel and the CFPB with an opportunity to identify and explore potential ways of shaping the proposals under consideration to minimize the burden of the rule on small entities while achieving the rule's purposes.

Any options identified by the Panel for reducing the rule's regulatory impact on small entities may require further consideration, analysis, and data collection by the CFPB to ensure that the options are practicable, enforceable, and consistent with the Truth in Lending Act ("TILA"), the Real Estate Settlement Procedures Act of 1974 ("RESPA"), the Dodd-Frank Act, and their statutory purposes.

2. Background

2.1. Market Background

Congress enacted the Dodd-Frank Act in the wake of the greatest financial crisis since the Great Depression. At the epicenter of this crisis was the mortgage meltdown. The serious and widespread deficiencies in the mortgage market damaged American homeowners, financial institutions, and the wider economy.

Pervasive and profound consumer protection problems have been reported across major segments of the mortgage servicing industry, particularly among large and specialty servicers.[5]

[5] *See e.g.,* Testimony of John Walsh, Acting Comptroller of the Currency, before the U.S. Senate Committee on Banking, Housing and Urban Affairs at p. 16 (February 17, 2011); Testimony of Mike Calhoun, President, Center

In a report on examinations of fourteen major servicers, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision concluded that those servicers were "emphasiz[ing] speed and cost efficiency over quality and accuracy" in their foreclosure processes.[6] This report did not include information on examinations of any small servicers.

2.2. The Dodd Frank Act

The Dodd-Frank Act mandates several protections for homeowners in the servicing of their loans, including:

(1) new disclosures (periodic statements, notice prior to reset of adjustable rate mortgages ("ARMs"), and force-placed insurance notices)[7] that will help provide consumers with comprehensive and comprehensible information, when they need it, in a form they can use, so they can better manage their obligations and avoid unnecessary problems;

(2) new requirements for servicers to respond in a timely way to borrowers who complain to their servicer about a potential mistake;[8]

(3) prompt crediting of payments, so consumers are not wrongly penalized with late fees or other fees because a servicer did not credit their payments quickly; [9] and

(4) timely response to requests for payoff information, so consumers can get their balance information when they need it.[10]

These new statutory requirements will take effect automatically in January 2013, as written in the statute, unless final rules are issued on or before that date. The statute authorizes the CFPB to adopt implementing regulations and, by doing so, extend the effective date for up to one year. The Bureau intends to use these authorities to adopt regulations that provide servicers with clarity about their statutory obligations and provide servicers with sufficient time to come into compliance. The Bureau will also consider adjusting servicers' statutory obligations to ease burden where consistent with adequate protection of homeowners, and appropriate under the Bureau's limited exemption authority.

2.3. Additional Proposals

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for Responsible Lending, before the House Financial House Financial Services Committee's Subcommittee on Financial Institutions and Consumer Credit and Subcommittee on Oversight and Investigations on Mortgage Servicing (July 7, 2011); *United States of America et al. v. Bank of America Corporation et al.*, Compl. ¶¶ 47-101 (D.C. Cir.), available at: www.nationalmortgagesettlement.com.

[6] Federal Reserve System, Office of the Comptroller of the Currency, and Office of Thrift Supervision, "Interagency Review of Foreclosure Policies and Practices," p. 5, (April 2011), http://www.occ.gov/news-issuances/news-releases/2011/nr-occ-2011-47a.pdf.

[7] Periodic statements are addressed in DFA 1420. The notice prior to reset of adjustable rate mortgages is addressed in DFA 1418. The force-placed insurance notices are addressed in DFA 1463.

[8] Error resolution is addressed in DFA 1463.

[9] Prompt Crediting is addressed in DFA 1464(a).

[10] Payoff information is addressed in DFA 1464(b).

The CFPB is also considering whether to propose additional standards to improve servicer information management and communications with troubled or delinquent borrowers. Some servicers can make it very difficult for troubled or delinquent borrowers to explore and take advantage of potential ways to avoid a foreclosure. For example, some servicers have frequently neglected to reach out or respond to distressed borrowers sufficiently early to allow the parties to find an alternative to foreclosure, lost documents of borrowers who have sought modifications or other relief, failed to track communications with borrowers, and forced borrowers who have invested substantial time communicating with an employee of the servicer to "start over" with a different employee.[11]

To address these concerns, the CFPB is considering proposing new servicing operations standards in three areas:

(1) servicers would have to maintain reasonable information management policies and procedures;

(2) servicers would have to intervene early with troubled and delinquent borrowers; and

(3) servicers would have to assure that staff who deal with borrowers have access to records about that borrower, including records of the borrower's previous communications with the servicer.

2.4. Related Federal Rules

The Dodd-Frank Act codified certain requirements contained in existing regulations and in some cases imposed new requirements that expand or vary the scope of existing regulations. The CFPB is working to eliminate conflicts and to harmonize the earlier rules with the new statutory requirements. A detailed description of these rules can be found in Appendix C. In general, the existing and expanded regulations cover the following topics:

- New Regulation Z ARM disclosures, as required by DFA 1418, will be provided six to seven months prior to the initial reset of interest rates. These disclosures will provide similar information to existing Regulation Z 1026.20(c) notices, however there are timing differences, and the new notice is only required for the first rate reset. The DFA 1418 notice is intended to be sent early enough for the borrower to take action (i.e. refinance or apply for a loan modification) before the monthly payment increases.

- Regulation Z 1026.36(c)(1)(i) contains a prompt crediting provision that is generally codified by the prompt crediting provision in DFA 1464(a).

- Regulation Z 1026.36(c) addresses the application of payments. The Bureau is considering

[11] *See e.g.* Larry Cordell, Karen Dynan, Andreas Lehnert, Nellie Liang and Eileen Mauskopf, "The Incentives of Mortgage Servicers: Myths and Realities," Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Working Paper 2008-46, at p. 9 (2008); Testimony of Diane Thompson, National Consumer Law Center, before the United States Senate Subcommittee on Housing, Transportation and Community Development of the United States Senate Committee on Banking, Housing & Urban Affairs, at 52, (May 12, 2011).

modifying this rule to mandate the application of funds if a full contractual payment has accrued in any suspense or unapplied funds account.

- Regulation Z 1026.36(c)(1)(iii) contains a provision regarding payoff amount requests that is generally codified by the Dodd Frank Act .

- RESPA 6(e) contains procedures for qualified written requests overlap with the DFA 1463 RESPA amendment providing additional procedures for resolving errors and responding to inquiries. The CFPB is considering proposing broader, more consumer-friendly procedures that cover wider topics than the current qualified written request procedures, which it believes will have substantial benefit to borrowers.

The CFPB is currently developing other proposed or final rules under Title XIV of the Dodd-Frank Act, including rules addressing ability-to-pay standards for qualified mortgages,[12] mortgage loan originator compensation,[13] mortgage loans subject to the Homeownership and Equity Protection Act (HOEPA),[14] consolidation of the disclosures consumers receive under TILA and RESPA[15] and, jointly with other agencies, appraisal practices.[16]

The Panel is not aware of any other Federal regulations that currently duplicate, overlap, or conflict with the proposals under consideration.

3. Overview of Proposals and Alternatives Under Consideration

In addition to other requirements, the Dodd-Frank Act requires several new disclosures: a periodic statement, notices prior to charging for any force-placed insurance, and a notice prior to the first reset of hybrid adjustable rate mortgages.

The new disclosure requirements will take effect with or without a Bureau regulation. The Bureau believes a regulation will aid consumers and servicers by clarifying legal rights and obligations and specifying disclosure requirements and formatting based on empirical testing. The CFPB is considering proposing model forms for the periodic statement, ARM reset notices, and force-placed insurance notices. Generally, model forms benefit servicers by providing them with safe harbors for complying with disclosure obligations, while preserving flexibility for servicers to vary from the model so long as they adhere to the regulation. With regard to the periodic statement and the ARM notices, the CFPB is considering a proposal that would require the notices to contain certain items and to group some of those items together for clarity and emphasis, but would permit servicers and creditors to customize the forms in other respects.

A more detailed description of the proposals under consideration can be found in Appendix C.

[12] DFA 1411
[13] DFA 1403
[14] DFA Subtitle C
[15] DFA 1032
[16] DFA Subtitle F

The CFPB has conducted extensive outreach efforts to consumers, industry members, and representative groups - including small entities and representative organizations - regarding the development of proposals and forms. The CFPB began meeting with industry stakeholders regarding the proposed servicing regulations in December 2011 and has conducted additional meetings and industry roundtables throughout 2012. Through these efforts, the CFPB has obtained information regarding the potential impacts of the proposed regulations from consumers and industry members, including small entities. The CFPB will continue to collect information from stakeholders, including small entities, as the rule is developed.

In addition, the CFPB has conducted three rounds of consumer testing in three different parts of the country.[17] The CFPB is testing the optimal amount, content, and presentation of information to include in each of the disclosures through one-on-one interviews with consumers. Between February 13 - 23, 2012, the CFPB posted a draft model periodic statement on its website for general comment. A fourth round of testing may take place after the proposal is issued. The selection of testing locations took into account geographic, economic, and size diversity as well as diversity of consumer demographics, such as age, race, and mortgage experience. The CFPB will publish a report summarizing the results of the cognitive interviews, along with publication of its proposed mortgage servicing rules.

3.1. Periodic Statements

DFA Section 1420 amends TILA by adding a new requirement that a creditor, assignee, or servicer of any residential mortgage loan – a closed-end credit transaction secured by a dwelling – provide a periodic statement to the borrower for each billing cycle. As discussed above, this new requirement will take effect with or without a Bureau regulation; the Bureau believes a regulation will provide clarity aiding both consumers and servicers. The Bureau is considering proposing a rule which would require certain items to be on the form, and for these items to be grouped together for clarity and emphasis, but would allow servicers and creditors to customize the form in other respects.

The proposals under consideration would require both the content listed in the statute, and additional billing information, as well as general loan information. The statement would also include information that may be helpful to troubled or delinquent borrowers. In accordance with the statute, the proposals under consideration would have a coupon book exemption for fixed rate loans when the borrower is given a coupon book with substantially the same information as required by the periodic statement.

3.2 ARM – Notice 6 Months Prior to Initial Interest Rate Reset

DFA Section 1418 amends TILA by adding a new requirement that a creditor or servicer provide a notice regarding the initial interest rate reset or adjustment of a hybrid adjustable rate mortgage at the end of the introductory period either (a) between 6 and 7 months prior to such reset, or (b) at consummation of the mortgage if the first reset occurs during the first 6 months after consummation. As discussed above, this new requirement will take effect with or without a

[17] The first round of testing took place in Towson, Maryland on February 1-2, 2012. The second round took place in Memphis, Tennessee on February 29 and March 1, 2012. The third round took place in the Los Angeles, California area on April 3-4, 2012.

Bureau regulation; the Bureau believes a regulation will provide clarity aiding both consumers and servicers.

The proposed form would require the content listed in the statute; additionally the CFPB is considering requiring information including details about the loan, key terms of the ARM, and information about the upcoming payment. Much of this additional content was proposed by the Federal Reserve Board in its 2009 proposed rule to amend Regulation Z's ARM reset notice.

The statute defines a "hybrid adjustable rate mortgage" as a consumer credit transaction secured by the consumer's principal residence with a fixed interest rate for an introductory period that adjusts or resets to a variable interest rate after such period. The CFPB understands the term hybrid ARM too generally encompass any ARM product with an introductory period of longer duration than its ensuing periods of adjustment.[18] The CFPB is considering proposing to use its discretionary authority to require this notice for ARMS that are not hybrid (1/1, 3/3, 5/5, etc.).[19] It is considering soliciting comments on whether this disclosure would be helpful to borrowers with these ARMs.

The CFPB is considering proposing changes to existing Regulation Z §1026.20(c), which requires creditors to send disclosures for *all* ARMs prior to *each* interest rate adjustment that effects a change in payment. Proposed changes the CFPB is considering include changes to the timeframe and content of the current disclosures, the logistics of sending the notice, and eliminating the requirement when borrowers will receive the earlier Section 1418 notice for a rate reset.

The CFPB has also considered proposing limiting the initial reset notice to hybrid ARMs -- and not requiring it for all ARMs. However, the Bureau opted for its currently considered proposal because all ARMs, not just hybrid ARMs, are subject to the same "payment shock" after the introductory period expires, and because Congress expressly authorized the CFPB to extend the Section 1418 (or other) notice to ARMs that are not hybrid.

3.3 Force-Placed Insurance

DFA Section 1463 amends RESPA to prohibit a servicer of a federally related mortgage from obtaining force-placed hazard insurance unless there is a reasonable basis to believe the borrower has failed to comply with the loan contract's requirements to maintain property insurance. Additionally, the statute requires certain notices be sent to the borrower, and process requirements about charging for, and terminating, force-placed insurance. As discussed above, this new requirement will take effect with or without a Bureau regulation; the Bureau believes a regulation will provide clarity aiding both consumers and servicers.

The CFPB is considering proposing forms for the notices to be sent to borrowers; additionally, the CFPB is considering proposing requirements concerning: charges related to force-placed insurance, payment of insurance from escrow, amount of coverage and a

[18]A 3/1 hybrid ARM, for example, maintains a fixed rate of interest for the three-year introductory period and then converts to an adjustable rate for successive one-year periods. Hybrid ARM includes the once-popular 2/28 and 3/27 mortgages, which often adjusts every six months after the introductory period.
[19]ARMs, unlike hybrid ARMs, *start* with an adjustable rate and that rate readjusts at even intervals.

clarification that the requirements do not apply where servicers renew consumers' existing insurance policies.

3.4 Prompt Crediting and Request for Payoff Amounts

DFA Section 1464 requires that servicers must credit consumer payments as of the date of receipt in connection with a consumer credit transaction secured by the consumer's principal dwelling, except if the delay does not result in any charge to the consumer or in the reporting of negative information to a consumer reporting agency. The servicer may, however, specify in writing requirements that the consumer must follow to make conforming payments. If non-conforming payments are accepted, the servicer must credit the payment five days after receipt.

The prompt crediting provision generally codifies the current Regulation Z requirements on prompt crediting that for payments received from borrowers that fall short of a complete payment, the CFPB is considering proposing retention of the current rule in Regulation Z permitting partial payments be treated in accordance with the legal obligation as determined by applicable state or other law. As such, servicers generally would be allowed to hold partial payments in a non-interest bearing suspense account until an amount equal to a full payment is received. Servicers also would have the option of returning the non-conforming payment to the borrower. Alternatively, the CFPB is considering proposing a new requirement that as soon as the amount in the suspense account equals a full contractual payment, the servicer must credit that payment to the earliest delinquent payment. This proposal under consideration would have the effect of rolling forward the borrower's date of delinquency by 30 days.

The statute requires a creditor or servicer of a home loan to send an accurate payoff balance within a reasonable time, but no more than seven business days, after receipt of a written request for such balance from or on behalf of the borrower. Regulation Z currently addresses payoff amount requests, but creates a safe harbor for responses sent within five business days. The proposal generally would follow the statute and require an accurate payoff balance to be provided no later than seven business days (excluding holidays and weekends) after receipt of a written request from the borrower. The prompt crediting provision generally codifies the current Regulation Z.

3.5 Error Resolution and Response to Inquiries

DFA Section 1463 amends Section 6 of RESPA by adopting a number of servicer prohibitions with respect to handling alleged errors and inquiries, including revising the timeframe to respond to qualified written requests, and prohibiting the charging of fees in connection with error resolution.

Section 6 of RESPA and Regulation X currently contain procedures for handling alleged errors and inquiries. Section 6 of RESPA provides that when a servicer of a federally related mortgage loan receives a "qualified written request" from a borrower for information relating to the servicing of the borrower's loan, the servicer must respond within certain timeframes. Regulation X limits application of the qualified written request provisions to "mortgage servicing loans," which includes only first-lien, closed-end mortgages.

The CFPB is considering proposing a comprehensive set of requirements for investigating and correcting errors and for responding to borrower inquiries. This approach would incorporate, but not be limited to, RESPA's use of the qualified written request to address "servicing" issues, as defined by RESPA. Specifically, servicers would be required to correct errors relating to allocation of payments, provision of final balances for purposes of paying off the loan, avoiding foreclosures, or other standard servicer's duties. Servicers also would be required to respond to inquiries about certain topics.

The CFPB is considering proposing a timeframe for error resolution and responding to inquiries that generally tracks the timeframe for qualified written requests, as amended by the DFA, subject to certain explicit exceptions. *See* Attachment E for a detailed description of these procedures.

3.6 Reasonable Information Management Policies and Procedures

DFA Section 1463 requires servicers to comply with any obligation the CFPB finds appropriate to carry out the consumer protection purposes of RESPA. The CFPB is considering using this authority to propose three rules in addition to those discussed above. These rules address Reasonable Information Management Policies and Procedures, Early Intervention for Troubled or Delinquent Borrowers, and Continuity of Contact, as discussed below. Potential civil liability would arise from violations of these regulations under RESPA.

The CFPB is considering a proposal to address wide-spread problems reported across major segments of the mortgage servicing industry, particularly among larger and specialty servicers, with regard to management of borrower documents and information. Reasonable policies and procedures for managing borrower documents and information would facilitate development of systems and operational processes for tracking and storing borrower documents and information with respect to borrower communications, error resolution, information requests, loss mitigation (including, without limitation, loan modification actions), foreclosure, and other servicer operations.

The CFPB further envisions a servicing industry capable of achieving mortgage loan servicing transfers without negatively impacting loss mitigation communications with borrowers. Through reasonable policies and procedures, servicers should be capable of transferring all relevant and accurate documents and information to (1) a subsequent servicer when servicing rights are transferred in a form and manner that enables the subsequent servicer to comply with the requirements of this subpart and (2) a forum addressing foreclosure.

The CFPB is considering proposing that the reasonableness of a servicer's information management policies and procedures would depend upon the size of the servicer and the nature and scope of its activities. Additionally, the CFPB is considering proposing to explain that a violation would occur if a servicer: (a) fails to establish reasonable information management policies and procedures or (b) demonstrates a pattern or practice of failing to comply with its procedures. However, an occasional failure to follow established policies and procedures would not constitute a violation of this part of the regulation. Potential civil liability would arise from violation of the regulation under RESPA.

3.7 Early Intervention for Troubled or Delinquent Borrowers

Additionally, under DFA Section 1463, the CFPB is considering proposing early intervention procedures for troubled and delinquent borrowers to address mortgage servicing problems experienced by such borrowers. For this purpose, the CFPB is considering proposing a rule requiring servicers to make good faith efforts to contact delinquent borrowers no later than 45 days after the onset of delinquency and to respond promptly to troubled borrowers who contact their servicers.[20] The proposal the CFPB is considering would require servicers to provide delinquent borrowers with written information about (1) options to help avoid foreclosures, such as loss mitigation programs available to them and how to access a housing counselor, and (2) the foreclosure process.

The Bureau is also considering proposing a requirement that servicers provide this written information to any borrower who contacts the servicer about having or expecting to have difficulty making payments within five days of the borrower making such contact. The CFPB is considering proposing an exemption from the written disclosure requirements for small servicers for loans they hold in portfolio if they make good faith efforts to contact borrowers no later than 45 days after they first become delinquent.

3.8 Continuity of Contact

Additionally, under DFA Section 1463, the CFPB is considering proposing to require servicers to provide delinquent and troubled borrowers with specific servicer points of contact. This is intended to address wide-spread problems reported with regard to inconsistent and faulty servicer contact with borrowers. The proposals under consideration would require servicers to provide all borrowers who become 45 days delinquent or who request assistance in avoiding delinquency with direct and on-going access to a staff of the servicer's customer service employees dedicated to serving troubled or delinquent borrowers. The proposal would require that these employees have ready access to files related to these borrowers.

The CFPB is considering proposing that a servicer does not violate the rule if ready access is temporarily unavailable as a result of computer systems issues, weather emergencies and similar force majeure events, or if records have been received too recently to be readily accessible to the customer service employees.

If the CFPB finds that certain classifications of small servicers already maintain consistent, albeit less formal, contact with their financially challenged clients, the CFPB may consider proposing adjustments to this rule for such servicers.

4. Applicable Small Entity Definitions

For purposes of assessing the impacts of the proposals under consideration on small entities, "small entities" is defined in the RFA to include small businesses, small nonprofit organizations, and small government jurisdictions. 5 U.S.C. 601(6). A "small business" is

[20] The CFPB is considering permitting servicers, at their option, to initiate contact by telephone, mail, or other means generally used by the servicer to communicate with borrowers.

determined by application of SBA regulations and reference to the North American Industry Classification System ("NAICS") classifications and size standards.[21] 5 U.S.C. 601(3). A "small organization" is any "not-for-profit enterprise which is independently owned and operated and is not dominant in its field." 5 U.S.C. 601(4). A "small governmental jurisdiction" is the government of a city, county, town, township, village, school district, or special district with a population of less than 50,000. 5 U.S.C. 601(5).

5. Small Entities That May be Subject to the Proposals Under Consideration

The CFPB identified five categories of small entities that may be subject to the proposals under consideration for purposes of the RFA. These are the categories of servicers that may be subject to the proposed regulations. The categories and the SBA small entity thresholds for those categories are:

CATEGORY	THRESHOLD FOR "SMALL"
Commercial Banks[22]	$175,000,000 in assets
Credit Unions	$175,000,000 in assets
Real Estate Credit	$7,000,000 in revenue
Other Activities Related to Credit Intermediation	$7,000,000 in revenue
Nonprofit Organizations	Not for profit; independently owned, operated; not dominant in field

6. Summary of Small Entity Outreach

6.1. Summary of Panel's Outreach Meeting with Small Entity Representatives

The CFPB convened the Panel on April 10, 2012. The Panel held an outreach meeting/teleconference with small entity representatives on April 20, 2012 (the "Panel Outreach Meeting"). To help the small entity representatives ("SERs") prepare for the Panel Outreach Meeting, the CFPB sent to each of the SERs the materials described in Appendix B as "Materials Circulated in Advance of Panel Outreach Meeting." In addition, the CFPB posted these materials on its website and invited the public to email remarks on the materials.

Representatives from 16 companies and organizations were selected as small entity representatives for this SBREFA process and participated in the Panel Outreach Meeting (either

[21] The current SBA size standards are found on SBA's website at http://www.sba.gov/content/table-small-business-size-standards.

[22] For the purposes of this Report, the categories of commercial banks and savings institutions are combined under the label "commercial banks."

in person or by phone). The PowerPoint slides forming the basis of discussion are attached as Appendix D.

The CFPB also provided the SERs with an opportunity to submit written feedback until May 1, 2012. The CFPB received written comments from five of the representatives. Copies of these written comments are attached as Appendix A.

6.2. Other Outreach Efforts, Including to Small Entities

In addition to conducting the SBREFA process, the CFPB has conducted extensive outreach efforts to consumers, industry members, and representative groups, as discussed above in Section 3. Additionally, as discussed above, the CFPB has conducted three rounds of testing in three different parts of the country.[23] Between February 13 - 23, 2012, the CFPB posted a draft model periodic statement on its website for general comment. A fourth round of testing may take place after the proposal is issued. The CFPB will publish a report summarizing the results of the cognitive interviews, along with publication of its proposed mortgage servicing rules.

7. List of Small Entity Representatives

The following 16 small entity representatives were selected to participate in the Panel process:

NAME/TITLE	BUSINESS NAME/LOCATION
Brian Barkdull	American Southwest Credit Union, Sierra Vista AZ
Erica Fischer	Sunset Bank and Savings, Waukesha, WI
Randy McElwee	Security Savings Bank, Monmouth IL
Tiffany Michel	Omaha Police Federal Credit Union, Omaha NE
Victor Petroni	First New England FCU, East Hartford CT
Glen Thurman	The First National Bank of Moody, Moody TX
Ralph Vinciguerra	Northern Ohio Investment Company, Sylvania OH
David Wright	Services Center, Yankton SD

[23] The first round of testing took place in Towson, Maryland on February 1-2, 2012. The second round took place in Memphis, Tennessee on February 29 and March 1, 2012. The third round took place in the Los Angeles, California area on April 3-4, 2012. The OMB Control Number for this testing is: 3170-0018.

Frank Altman	Community Reinvestment Fund, USA, Minneapolis, MN
Edward Fay	Fay Financial, LLC, Chicago IL
Kevin Kanouff	Statebridge Company, Denver CO
Royce Lewis	Capital Mortgage Services, Lubbock TX
Cindy Moberly Spencer	Farmers and Merchants Bank, Miamisburg OH
Mark Ross	Cumberland Security Bank, Somerset KY
Mark Warshal	Fairway Consumer Discount Company, Luzerne PA
Christine Wiley	Rocky Mountain Law Enforcement, Denver CO

These small entity representatives were selected from the following five industry categories:

Commercial Banks	5
Credit Unions	5
Real Estate Credit	3
Other Activities Related to Credit Intermediation	2
Nonprofit Housing Organizations	1

The following is a breakdown of SERs by geographic region:

- Two SERs are from the Northeast and Mid-Atlantic regions.
- Eight SERs are from the Midwest.
- Three SERs are from the South and Southwest regions.
- Three SERs are from the West.

The following is a breakdown of SERs by type of locality (*i.e.*, rural, urban, suburban, or metropolitan areas):

- Six SERs are located in small and/or rural areas with populations of less than 20,000.[24]
- Seven SERs are located in mid-sized urban or suburban communities with populations of less than 500,000.

[24] The one additional individual identified as a potential SER who ultimately did not participate in the panel discussion (noted in the immediately prior footnote) was located in a small and/or rural area.

- Three SERs are located in larger urban or metropolitan areas with populations of more than 500,000.

8. Summary of Small Entity Representative Comments

This Chapter summarizes the feedback provided by SERs during the Panel Outreach Meeting.

As discussed above, the SERs consisted of representatives from the following industry categories: non-profit, commercial banks, credit unions, and other non-depository servicers (classified under NAICS codes for Real Estate Credit and Other Activities Related to Credit Intermediation).

In general, the SERs stated that their companies, and small lenders and servicers generally, did not engage in many of the practices that contributed to the mortgage market crisis. With regard to the problems reported in the servicing industry generally, they emphasized that small companies generally use a "high-touch" model that involves constant customer contact and high levels of service in order to ensure that loans perform well. The SERs stated that a number of these proposals do not reflect their current business practices, and would be expensive to implement. They expressed concern about the Dodd-Frank Act's extensive regulation of mortgage servicing, stating that the new compliance burdens would make it increasingly difficult for small firms to stay in the market and to provide choices to consumers.

8.1. Periodic Statements and Coupon Book Exception

<u>In General</u>. As discussed below, SERs expressed concerns about the cost of providing periodic statements: both about the large initial investment that they say would be required to set up the system, and the on-going cost of sending statements. The SERs did not object to offering the majority of the information; they stated this information was easily available on request, but they objected to the cost of sending out what they believed were often unnecessary, and at times, unwanted, statements.

<u>Compliance Costs</u>. SERs identified the following costs associated with providing the periodic statement:

<u>One-time Costs</u>. Some SERs do not issue periodic statements and would need to purchase a system or set up a vendor contract to create them. Other SERs do issue a periodic statement already, often using a vendor. These SERs explained they would incur large costs in reformatting the statement to meet the proposed requirements for both organization and content. The SERs explained that these initial costs would be incurred even if they only had to provide a periodic statement to one customer. Because the SERs used a variety of vendors and systems, different SERs would need to make different changes to comply with the CFPB's requirements.

- One commercial bank SER explained that its periodic statement includes information on the breakdown of payments applied to principal and interest, insurance (if applicable), and late payments, but does not provide counseling information, transaction history, and information about escrow because they do not use escrow accounts.

- One credit union SER explained that its periodic statement is provided as part of a member's overall periodic account statement. The mortgage portion of that statement includes information on fees charged during the year, interest rate, amount of interest owed, total interest charged for the year, payment balance, the next payment amount owed and due date, any amount past due, the previous month's payment, the amount escrowed and the escrow balance, as well as the breakdown of principal and interest. This SER explained that it provides this statement through a third-party core processor.

- One non-depository SER said that its statements already includes most of the information that would be required under the Bureau's proposal, except for information on maturity date, prepayment penalties, counseling, and delinquency. This SER also explained that mortgage counseling information would be difficult to keep track of because it changes frequently and would increase the length of the statement, resulting in greater aggregate printing and postage costs.

Several SERs explained that they currently provide some information that would be required under the Bureau's proposal in separate notices rather than as part of a monthly statement.

- Two SERs explained that they generate delinquency notices separately, instead of including the information on a periodic statement. One commercial bank SER explained that it automatically generates a late charge notice one day after the grace period, and provides follow-up delinquency notices every 30 days (30, 60, 90, and 120 days out). The SER also explained that it engages in frequent phone contact with delinquent borrowers.

- Another commercial bank SER explained that it provides monthly periodic statements that contain most of the information that would be required by the Bureau's proposal, except interest rate reset dates, which it currently discloses to borrowers in a separate advance notice.

While some SERs could not provide an exact estimate of vendor costs, they all stated that implementing the periodic statement requirement would be expensive. The SERs explained that they were too small to have in-house expertise and thus generally use third-party vendors to develop their statements and notices. Additionally, because of their small size, they believe they had no control over these vendor costs.

- One commercial bank SER explained that it uses a vendor to develop its forms, but could not provide an estimate of how much a vendor would charge to update its form.

- One non-depository SER explained it uses a third-party vendor to process periodic statements for borrowers. This SER explained, however, that providing borrowers a periodic statement with a borrower's delinquency information would require it to devote time and resources to transmitting its delinquency history data to the vendor's processor.

- Another non-depository SER estimated that it would cost $150,000 to $500,000 to convert to a new periodic statement system, depending on the software selected. This SER did not give the basis for this estimate.

- One commercial bank SER explained that it does not issue periodic statements. This SER reported that it would have to pay vendors one-time costs to develop a periodic statement because it does not have in-house expertise, but expressed concern that, because of its small size, it does not have leverage over vendor costs.

- However, the SERs did agree that these costs might be partially mitigated if such changes were part of a regulatory compliance initiative – because the vendor would be making changes to serve a large segment of its customers, the expense could be distributed across those customers. One credit union SER explained that servicers would probably not face direct costs for global vendor processor updates, but that they would face indirect costs, as reflected in overall pricing for the vendor's product and in ongoing annual maintenance fees charged to vendor clients.

Some SERs attempted to estimate the costs based on past changes to their systems.

- One SER explained that some servicers may choose to create a parallel system, which would impose new licensing and other costs. This non-depository SER, citing past experience with implementing changes to Ginnie Mae's servicing guidelines, estimated that it would have cost approximately $150,000 to $200,000 to make its existing system compliant with the Ginnie Mae requirements. The SER explained that it chose instead to create a parallel system.

- One credit union SER, whose institution prints its own statements, estimated that the last time it made minor changes to its statements the cost was approximately $20,000.

- One credit union SER expected that switching to a periodic statement system would cost approximately $30,000 to $40,000 in startup costs, not counting the time involved in making this adjustment. This SER did not give the basis for this estimate.

Ongoing Costs. SERs also expressed concerns about ongoing costs, both in the form of vendor annual and maintenance fees and in the cost of printing and shipping. The SERs stated that the more pages in the statement, the greater the overall printing and postage costs.

- One non-depository SER that uses a third-party vendor to process periodic statements explained that it would face ongoing statement-by-statement quality control costs to ensure the vendor is transmitting accurate information to borrowers.

- One non-depository SER and one non-profit SER indicated that providing housing counseling information on the statement would impose on-going monitoring and adjustment costs. Information about counseling programs and contact information changes from time-to-time. The SERs indicated that servicers would be required to monitor them and continuously update them to make sure their statements remain accurate.

Although they did not state the basis for these estimates, SERs provided the following estimate of monthly vendor costs:

- One non-depository SER estimated that it would cost an additional $11,000 per month in ongoing support.

- Another non-depository SER estimated that a vendor might charge $1,000 – $2,000 a month in fees for a periodic statement system.

- One commercial bank SER estimated monthly costs at $2,200, at a cost of approximately $1 per statement (the SER explained that it has about 4,200 loans, half of which are mortgage loans).

Other complications could increase the cost of this requirement. One credit union SER explained that because it uses different processing systems for first and second mortgages, its costs could double in order to make both systems compliant with the Bureau's proposal.

Coupon Book Exception. SERs agreed that the ongoing costs of the proposed periodic statement disclosure are mitigated to some extent by the exemption for fixed rate residential mortgage loans where the borrower is given a coupon book with substantially the same information as required by the periodic statement. Different SERs reported varying degrees of borrower use of the coupon book. One credit union SER reported that only 1% of borrowers actually mail in the coupons, while another credit union SER explained that 50% of borrowers requested coupon books at closing. A non-depository SER claimed a vast majority of its borrowers use coupon books, however many of these coupon books are used for ARM loans; while the statutory exemption for coupon books is limited to fixed rate loans.

- One commercial bank SER explained that it does not issue coupon books but rather a cardboard tri-fold "passbook" that is stamped each time a payment is made. The passbook contains some of the information that would be required by the Bureau's proposal (payment amount, and contact information), but does not contain information on current principal and interest, the date of an interest rate reset, prepayment penalties, and late fees. The SER explained, however, that this information could be added to the passbook. The SER explained that it would be more problematic for the passbook to provide year-to-date information in one place, but noted that customers could derive this information themselves by totaling past activity on the passbook.

- One non-depository SER explained that it uses coupon books that have less information than what would be required by the Bureau's proposal.

- Another non-depository SER noted that even with this exemption, it would still be required to issue periodic statements if a borrower who uses coupon books becomes delinquent.

Making Information Available, Rather than Providing It on a Periodic Statement. During the conversation, the SERs were asked if they would prefer the idea of providing certain information through a method other than the periodic statement – for example, making information available by telephone or online. The SERs were generally supportive of these alternatives as a way to mitigate costs. The SERs commented that such alternatives would avoid having to re-state static information (such as the property address), and would allow them to more easily provide dynamic information (such as account balances, or contact information for housing counselors). Furthermore, a non-profit SER suggested that the CFPB or HUD could host housing counseling information. One non-depository SER indicated that it might be expensive to provide this information on web site, but it would be possible to provide the information on a telephone call.

Safe Harbor Period for Updating Dynamic Information. Several SERs expressed concern that their reliance on third-party vendors can make it difficult to update their statements quickly. According to the SERs, their vendors issue major updates to their systems on varying frequencies, ranging from once every 18 months, to sporadically, as needed. One non-depository SER suggested a safe-harbor time for compliance – for example, if a housing counselor went out of business, the servicer would have a set period of time to remove that housing counselor from the periodic statement. This SER explained that this would provide some relief from the compliance risk.

Difficult Information. SERs expressed concern about certain pieces of information. One non-depository SER identified year-to-date payment history as a potentially significant cost. Another non-depository SER suggested that providing a segregated field for aggregated information on each statement was unnecessary and redundant because borrowers could determine relevant information through their payment history.

Prepayment Penalty Information. One non-depository SER suggested that requiring a field for prepayment penalty information was unnecessary because prepayment penalties are rarely enforced in the current market and that information on prepayment penalties is available in the underlying loan document. The SER suggested only requiring that it appear on the periodic statement if the investor chooses to enforce them.

Electronic Statements. Several SERs expressed support for an exemption if a borrower has an ACH automatic bill payment system in effect, although they recognized that a written statement may be necessary if a borrower becomes delinquent. Separately, one credit union SER expressed concern that the rule would require servicers to issue paper statements.

Other Exemptions. Several SERs offered suggestions for exemptions for servicers of GSE loans and for quarterly or semi-annual statements (rather than monthly).

Machine-Readable Format. One credit union SER requested clarification on what type of machine-readable format CFPB would require and how it would ensure confidentiality of the information. The machine readable format reference in the SBREFA materials addressed the concept that disclosures should be presented in a form that could be compared and contrasted. Often this is done by presenting information in a table. The CFPB considered machine-readability in designing the model disclosure requirements, but will not be including a machine-readability requirement in the proposed rule..

8.2 ARM Disclosures

In General. As discussed below, SERs expressed concerns about the one-time development costs and on-going maintenance costs from vendors associated with providing the initial ARM adjustment disclosures and the subsequent adjustment notices. They also expressed doubt that the estimated numbers that would be required in the initial ARM disclosures would be beneficial to consumers.

Compliance Costs. SERs identified the following costs associated with providing the initial and subsequent ARM adjustment disclosures:

- One-time Costs. SERs generally explained that the proposed initial ARM disclosures would be a new, separate notice for them. Their typical practice is to notify borrowers of a rate adjustment when the small servicer knows the exact amount of the interest rate adjustment.

- The proposed initial ARM adjustment disclosures may require some servicers or their vendors to develop a new form or to reformat an existing form. One commercial bank SER explained that the initial adjustment good faith estimate notice would require a major programming change, but that vendors have not provided cost quotes at this point. This SER also explained that the more a notice has to be customized to a particular borrower, the more expensive it is to produce.

- On-going Costs. Sending the proposed initial and subsequent ARM adjustment disclosures may impose new mailing and other costs on servicers or vendors. Two SERs indicated that their annual vendor processor fees would increase. One credit union SER asserted that even after they paid the expensive initial cost, the annual maintenance fees would continue to be a problem.

Other Comments. Several SERs expressed concern that the proposed initial reset disclosure would confuse consumers because it would only provide an estimate that would not accurately reflect the actual reset rate. SERs believe their existing practices with regard to the 45-day look back period required in most notes provides sufficient advance notice for consumers who know at the time they take out the loan what the adjustments periods are. One commercial bank SER was concerned that sending an estimated reset notice too far out in advance would cause some borrowers to miss a payment. This SER expressed support for an alternative that the servicer issue a notice 60 or 90 days before the reset to notify the borrower of the index to which the rate will eventually adjust (the SER believed its core processor would be able to support this change easily).

8.3. Force-Placed Insurance

Advance Notice of Force-Placed Insurance Coverage. Under the proposal, servicers would be required to provide borrowers with two written notices before charging borrowers for force-placed insurance. SERs did not raise major concerns with this requirement.[25]

- One credit union SER explained that it currently provides two notices that are very similar to the ones that would be required by the Bureau's proposal.

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[25] Written comments submitted by the SERs suggested that there may have been some confusion about the 45 day period during which the servicer may not charge for force-placed insurance. The proposal under consideration does not require that the borrower may not place insurance during this 45 day period, only that the borrower may not be billed for this insurance until the end of the 45 days.

- Another credit union SER explained that it currently exceeds the number of notices that would be required by the proposal.

Refunds for Overlapping Coverage. Under the proposal, servicers would be required to terminate the force-placed insurance and refund any premiums applicable to any period during which the borrower had coverage after the servicer receives confirmation of a borrower's existing coverage.

- SERs generally explained that the insurance providers typically refund premiums back to the borrower for periods of overlapping coverage.

- One credit union SER explained that the insurance provider it is currently using will not refund premiums back to the borrower if the creditor is not protected under the borrower-obtained coverage.

Escrow Advances. The CFPB is considering amending Regulation X by proposing that the servicer must make timely disbursements from escrow funds to pay for a borrower's insurance premium even if the borrower is delinquent, absent cancellation of the policy by the borrower or the insurance company (for any reason other than non-payment of premiums). The amendment to the escrow disbursement rules, while potentially limiting the frequency with which servicers force place insurance, would require servicers to advance funds for maintaining pre-existing insurance for borrowers who are more than 30 days overdue.

- Most SERs did not raise specific concerns with this proposal, but two SERs explained that they have on occasion been unable to obtain from borrowers the unused premium refund that they advanced. This problem has arisen when borrowers facing imminent foreclosure cancel their policies and collect the unused premium refund for themselves.

On-Going Monitoring Costs. SERs provided mixed responses to the Bureau's question about monitoring costs associated with force-placed insurance. Some SERs explained that force-placed insurance providers absorb or pass on to the consumer costs related to providing notices, tracking borrower coverage, and placing the insurance, but others reported that they incur these costs themselves.

- One credit union SER explained that some insurance providers, depending on their loss ratios, have charged for these on-going costs.

- One commercial bank SER explained that it prepares force-place insurance notices in-house.

Documenting Compliance. One commercial bank SER pointed out that the servicers were not only concerned about the new obligations these rules would impose, but also about the costs they would incur in documenting compliance to prepare for regulatory examinations.

8.4. Error Resolution and Responses to Inquiries

In General. The SERs expressed that errors were rare, but when they did occur, they were quickly resolved. The SERs felt they have a high-touch customer service model, which made it very easy for borrowers to report errors or make inquiries, and to receive a real-time response. The SERs reported not having problems resolving errors, and expressed due to reputational concerns they preferred to correct them quickly. However, the SERs expressed some concerns about error resolution procedures being used as a weapon against them, and about the burden imposed by tracking the responses to errors and inquiries.

Current conditions. The SERs explained that most inquiries and problems were presented orally or through an informal process – i.e. walking in to the bank, calling, writing a note in the margin of payment. The vast majority of issues were resolved during the conversation. The few remaining errors were handled through informal escalation systems depending on the entity – requesting to speak with a manager, or simply walking into the company president's office. Additionally, should these informal systems not be sufficient, the borrower has recourse to existing formal systems, such as filing a complaint with state or federal regulators. The SERs had no objection to the proposed response timeframes.

Qualified Written Requests (QWRs). The SERs expressed some concerns about abuse of the QWR process; most had received very few, if any, QWRs (single-digits numbers over their careers). The SERs were happy to provide specific information on request, but felt that often QWRs were either vague forms found online, or lawyers using the forms as fishing expeditions. Such vague requests require large amounts of documents, which are expensive to produce. The SERs asserted that QWRs are sometimes used not for informational purposes, but as a foreclosure avoidance tactic by attorneys, and requested some sort of exemption for abusive requests, or if the intent of the request is to harass the servicer.

Written Responses. The SERs expressed concerns about the burden of providing a written response to all inquiries, particularly ones that were resolved during the conversation with the customer. They felt this added little, if any, benefit to the consumer, and was a large burden for the servicer. One SER suggested that the borrower should have to submit a request in writing to receive a response in writing. This would formally document the request, avoid disagreements about whether or not a request was actually made, and could help deter frivolous requests.

Tracking. The SERs expressed concerns about the cost of tracking errors. Several explained that notes were kept in the consumer's file: while these are available on a case-by-case basis, it would be difficult to produce a list of all errors and inquiries. Additionally, the SERs explained that due to the immediate response to most errors and their reputational motivations for resolving errors, it is unnecessary to have a system to track errors.

- Some SERS expressed concerns about monitoring compliance with this provision, as it would be difficult to determine if bad actors were not recording phone calls, and the potential incentives to not report errors.

Costs. While the SERs had no objections to providing information in the proposed timelines, they expressed concerns about the cost of written responses and tracking of responses.

Additionally, one SER stated concerns about the cost of responding to anything that might be a QWR: SERs will default to the more burdensome formal process for everything that looks like it might be a QWR, rather than risk a RESPA violation. This additional cost is an expense that is passed on to borrowers.

Specific Information. With one exception (the investor information), the SERs felt fairly comfortable with the types of information subject to the error resolution requirements, saying this information would be found in the loan files.

- Information from a Prior Servicer. The SERs felt that they would be able to track down information from prior servicers, if given additional time.

- Investor Information. The SERs objected to the requirement of providing investor information, explaining that (1) servicers are hired to handle customers so that investors don't have to; (2) investors are not prepared to handle calls from borrowers; and (3) there may not be contact information for the investors, (for example, if the loans were in a trust).

8.5. Reasonable Information Management Policies

Reasonable Information Management Policies. The SERs had no objections to the requirement of establishing reasonable policies to achieve objectives. They appreciated the flexibility of the proposals under consideration, and thought it was good that "reasonable" depends on the size, nature and scope of the entity. They emphasized that small firms do not necessarily use automated and/or online systems to record and track all borrower communications and interactions, and urged the Bureau to avoid structuring the requirement in such a way as to require expensive system upgrades.

Information Management for Loss Mitigation. The SERs appeared to be handling a relatively low number of delinquencies and foreclosures, making a complex process management system unnecessary. One servicer explained foreclosures were discussed at a weekly meeting. SERs with higher numbers of delinquencies had loss mitigation departments to manage the process.

Document Management. The SERs mentioned that papers and conversation notes were tracked through their systems, which would allow employees easy access to the information.

8.6. Early Intervention and Continuity of Contact

8.6.1 Early Intervention

In General. The SERs generally already have contacted borrowers long before the 45 day timeline, but the content of the information is usually more tailored to the individual. Additionally, some SERs do not provide foreclosure information until after loss mitigation options have been explored. One SER stated that while the proposal under consideration was generally in line with what they are already doing, his company objected to an unnecessary process that would require sending yet another notice to the consumer.

- Time of Contact. The SERs explained that contact with delinquent borrowers was usually established well ahead of the 45 days proposed timeline, often within 10 days of the delinquency. One SER mentioned that the GSEs require contact at day 16, and possibly as early as day 5 if there is a history of delinquency. The SERs agreed that if information was delayed until day 60, there might not be time to process loss mitigation options before foreclosure.

- Form of Contact. The SERs used a mixture of formal and informal methods of contact, which included a soft reminder phone call, more formal phone calls, notices being sent, and certified letters being sent to the borrower.

- Content of the Contact. The SERs also described a range of information provided to the borrowers, but often the content was tailored to the specific situation. The SERs report they were able to sort out which borrowers simply had forgotten to mail in a payment from borrowers who were having trouble making payments. The SERs stated that they wanted to try to work with the borrower and explore loss mitigation options before discussing foreclosure.

- Frequent Contact. The SERs stated they are very high-touch in dealing with delinquent borrowers, reaching out to the borrowers early in the delinquency process and trying to help the borrower with any paperwork required.

Dealing with Delinquent Borrowers. The SERs stated they had relatively low numbers of delinquent borrowers. Because of the low numbers, the SERs say they were able to provide flexible responses and tailor solutions to the borrower's needs, and were often able to get the borrower current. The SERs stated that generally the only time they were not able to help was when a borrower refused to talk to them.

- Chronically Delinquent. One SER expressed concerns about borrowers who were constantly delinquent – usually running a month or two late on payments. This SER did not want to have to send the information under consideration for early intervention to such borrowers every month. The SER felt that limiting such information to twice a year would be very helpful.

Agency Loans. The SERs who service for Fannie Mae and Freddie Mac loans expressed that the strict rules and tight timeframe requirements of Fannie and Freddie drove that aspect of their business. These SERs stated that they were required to follow these timelines, even when they felt a slower timeline would make a modification feasible.

8.6.2 Continuity of Contact

In General. SERs generally stated that with their small staffs, everyone had access to files and would be able to assist borrowers in delinquency, so that a special dedicated staff was not required to handle the loss mitigation process. Some of these SERs had committees that would meet to discuss what should happen if loss mitigation efforts were unsuccessful; such committees make the decision whether to refer a file to foreclosure.

Foreclosure. Several SERs explained that once a decision to foreclose was made, the file would be handed off to a separate team, or to outside foreclosure counsel. The SERs explained they would still be willing to communicate with the borrower during the foreclosure process, and one SER said they would be willing to bring the file back to consider a modification if the circumstances were appropriate.

Natural Disasters. The SERs liked the idea of an exception for natural disasters or unforeseen disruptions. One SER explained his company had had two problems in the past year, once when a hurricane knocked out power for 5 days, and again when an October snow storm took out power for a week. This SER appreciated the agency's understanding and being flexible about timelines in light of these disasters.

8.7 Prompt Crediting and Payoff Amounts

8.7.1 Partial Payments

Current Handling of Partial Payments. The SERs were split as to current practices, with about half of the SERs saying they post partial payments, while the other half held partial payments in suspense accounts, and posted when a full payment was received.

Definition of Full Payment. The SERs' definition of a full payment varied depending if escrow was applicable, but none of the SERs would consider a payment not complete if the only deficiency was a late fee.

Negative Amortization of Interest. While one SER did say his company used daily simple interest accounting, he said they did not capitalize unpaid interest. Partial payments would be applied to interest first, and if that was not sufficient, the deficiency would be taken out of the next month's payment.

Auto-Debit. The SERs generally said that if an account were set up for automatic payments, and there were insufficient funds in the account, the borrower would be notified of the deficiency. Different SERs would handle the situation in different ways – the funds may be deducted from escrow, or the system may continue to check for new funds being deposited in the linked account.

De Minimus. The SERs were asked if there was a de minimus amount – if there was a deficiency so small they would credit the payment anyway. While no SER said his or her company had such an amount, one SER said her company would ask the borrower for permission to withdraw the deficiency from escrow.

Foreclosure. One SER expressed concern about the rule on partial payments, particularly in the foreclosure context. This SER stated that many of the borrowers are frequently behind, and would prefer to have the servicer take their money, even a partial payment, to ensure that the money was not spent on other things. This SER did not want to be in a position of being forced to return these funds.

Expense. When asked about the expense of changing to a prompt crediting system, the SERs stated that it would depend on their current system. Some have already set up to make this change, while others have a more complicated situation if their current software can't be adapted to accommodate these changes.

8.7.2 Pay-off Statements

Timing. The SERs stated they provide payoff statements quickly, i.e. immediately, within the hour, or within 24 hours. One SER cautioned that there could be complications in a foreclosure / bankruptcy situation which could take additional time to produce the pay-off statement.

Fees. None of the SERs charged a fee for providing a pay-off statement, but mentioned that they have seen other servicers that do charge a fee. The example cited was a $50 fee with a $35 fax fee added on top.

Accuracy. When asked what happens if there is an inaccuracy in a statement received from another lender, all the SERs replied they use a title insurance to protect themselves.

8.8. Impact on the Cost of Business Credit

The SERs had few comments on the impact on the cost of business credit. While they took this time to express concerns that these regulations would increase their costs, they said these regulations would have little to no impact on the cost of business credit. When asked, one SER mentioned that at times people may use a home-secured loan to finance a business, which was corroborated by a different SER based on his personal experience with starting a business.

9. Panel Findings and Recommendations

9.1 Number and Type of Entities Affected

For purposes of assessing the impacts of the proposals under consideration on small entities, "small entities" are defined in the RFA to include small businesses, small nonprofit organizations, and small government jurisdictions. 5 U.S.C. 601(6). A "small business" is determined by application of SBA regulations and reference to the North American Industry Classification System ("NAICS") classifications and size standards.[26] 5 U.S.C. 601(3). A "small organization" is any "not-for-profit enterprise which is independently owned and operated and is not dominant in its field." 5 U.S.C. 601(4). A "small governmental jurisdiction" is the government of a city, county, town, township, village, school district, or special district with a population of less than 50,000. 5 U.S.C. 601(5).

During the Small Business Review Panel process, the Bureau identified five categories of small entities that may be subject to the proposed rule for purposes of the RFA: commercial banks/savings institutions[27] (NAICS 522110 and 522120), credit unions (NAICS 522130), firms providing real estate credit (NAICS 522292), firms engaged in other activities related to credit intermediation (NAICS 522390), and small non-profit organizations. Commercial banks, savings institutions and credit unions are small businesses if they have $175 million or less in

[26] The current SBA size standards are found on SBA's website at http://www.sba.gov/content/table-small-business-size-standards.
[27] Savings institutions include thrifts, savings banks, mutual banks, and similar institutions.

assets. Firms providing real estate credit and firms engaged in other activities related to credit intermediation are small businesses if average annual receipts do not exceed $7 million.

A small non-profit organization is any not-for-profit enterprise which is independently owned and operated and is not dominant in its field. Small non-profit organizations engaged in mortgage servicing typically perform a number of activities directed at increasing the supply of affordable housing in their communities. Some non-profit organizations originate and service mortgage loans for low and moderate income individuals, while others purchase loans or the servicing rights on loans originated by local community development lenders. Servicing income is a substantial source of revenue for some small non-profit organizations while others receive most of their income from grants or investments.[28]

The following table provides the Bureau's estimate of the number and types of entities that may be affected by the proposals under consideration:

<u>Estimated number of affected entities and small entities by NAICS code and engagement in closed-end mortgage loan servicing</u>

<table>
<tr><th>Category</th><th>NAICS</th><th>Small entity threshold</th><th>Total entities</th><th>Small entities</th><th>Entities engaged in mortgage loan servicing</th><th>Small entities engaged in mortgage loan servicing</th></tr>
<tr><td>Commercial banks & savings institutions</td><td>522110, 522120</td><td>$175,000,000 assets</td><td>7,724</td><td>4,250</td><td>7,502</td><td>4,098</td></tr>
<tr><td>Credit unions</td><td>522130</td><td>$175,000,000 assets</td><td>7,491</td><td>6,568</td><td>5,190</td><td>4,270</td></tr>
<tr><td>Real estate credit</td><td>522292</td><td>$7,000,000 revenues</td><td>5,791</td><td>5,152</td><td rowspan="2">1,388</td><td rowspan="2">800</td></tr>
<tr><td>Other activities related to credit intermediation (includes loan servicing)</td><td>522390</td><td>$7,000,000 revenues</td><td>5,494</td><td>5,319</td></tr>
</table>

For commercial banks, savings institutions and credit unions, the number of entities and asset sizes were obtained from December 2010 Call Report data as compiled by SNL Financial. Banks and savings institutions are counted as engaging in mortgage loan servicing if they hold closed-end loans secured by 1 to 4 family residential property or they are servicing mortgage loans for others. Credit unions are counted as engaging in mortgage loan servicing if they have closed-end 1-4 family mortgages on portfolio, or hold real estate loans that have been sold but remain serviced by the institution.

For firms providing real estate credit and firms engaged in other activities related to credit intermediation, the total number of entities and small entities comes from the 2007 Economic Census. The total number of these entities engaged in mortgage loan servicing is based on a special analysis of data from the Nationwide Mortgage Licensing System and Registry and is as of Q1 2011. The total equals the number of non-depositories that engage in mortgage loan servicing, including tax exempt entities, except for those mortgage loan servicers

[28] The CFPB is continuing to refine its description of small non-profit organizations engaged in mortgage loan servicing and working to estimate the number of these entities, but it is not possible to estimate the number of these entities at this time. Non-profits and small non-profits engaged in mortgage loan servicing would be included under real estate credit if their primary activity is originating loans and under other activities related to credit intermediation if their primary activity is servicing.

(if any) that do not engage in any mortgage-related activities that require a state license. The estimated number of small entities engaged in mortgage loan servicing is based on predicting the likelihood that an entity's revenue is less than the $7 million threshold based on the relationship between servicer portfolio size and servicer rank in data from Inside Mortgage Finance.[29]

9.2 Related Federal Rules

The CFPB is currently developing other proposed or final rules under Title XIV of the Dodd-Frank Act, including rules addressing ability-to-pay standards and qualified mortgages, mortgage loan originator compensation and qualification, mortgage loans subject to the Homeownership and Equity Protection Act, consolidation of the disclosures consumers receive under the Truth in Lending Act and the Real Estate Settlement Procedures Act of 1974, and, jointly with other agencies, appraisal practices. Except for the overlaps discussed in 2.4 above, the Panel is not aware of any other Federal regulations that currently duplicate, overlap, or conflict with the proposals under consideration.

9.3 Panel Findings and Recommendations

As discussed earlier in this report, the SERs stated that their companies, and small lenders and servicers generally, did not engage in many of the practices that contributed to the mortgage market crisis. The SERs indicated that some of the proposals under consideration are not consistent with their current business practices. The SERs expressed concerns that having to change their business practices to comply with the proposals under consideration could be costly and burdensome and may impact their ability to continue to service mortgages for their customers. The SERs urged the Bureau to broadly exempt them from new requirements. However, Congress has placed limits on the Bureau's exemption authority. The Panel recommends that the CFPB consider using its authority, consistent with the provisions of the relevant statutes and adequate protection of consumers, to provide flexibility to small servicers so that they can continue to service mortgage loans for their customers.

9.3.1 Periodic Statements and the Coupon Book Exemption.

In general, SERs expressed concerns about the costs of providing periodic statements: both about the initial investment that would be required to set up the system, and the on-going cost of sending statements. While SERs did not object to offering the majority of the information in the statement, they indicated that much or all of this information was already provided through existing communications or easily available on request, and objected to the cost of sending out statements, which they felt were often unnecessary.

The Panel recommends the CFPB consider creating an exemption from the periodic requirement for certain small servicers. Such an exemption would be limited to servicers who meet certain conditions, including providing certain information to borrowers.

9.3.2 Adjustable Rate Mortgage Disclosures

[29] The CFPB is continuing to refine its estimate of the number of firms providing real estate credit and engaging in other activities related to credit intermediation that are small and which engage in mortgage loan servicing.

In general, SERs expressed concerns about the one-time development costs and on-going maintenance costs associated with providing the initial ARM adjustment disclosures and the subsequent adjustment notices. They also expressed doubt that the estimated numbers that would be provided in the initial ARM disclosures would be beneficial to consumers. The SERs suggested the Bureau should create a small servicer exemption from this requirement.

The Panel recognizes while there are some concerns about providing estimates six months or more in advance, the statute established this time frame to give consumers adequate time to consider alternatives. To ease the regulatory burden, the Panel recommends the CFPB consider not requiring compliance with the current ARM adjustment disclosure (which is required to be issued 25-120 days before each rate and payment change), when the new ARM disclosure (which is required to be issued six – seven months before the first rate and payment change) is provided.

9.3.3 Force-Placed Insurance

The SERs had no major objections to the notices for force-placed insurance, other than restating concerns about compliance costs. The SERs did express concerns about renewing an existing policy with advanced funds, because the borrower could cancel the policy and pocket the refund.

The Panel recommends the CFPB avoid or mitigate the potential for unjust enrichment by proposing to allow servicers to advance funds in 30 day installments, rather than in annual installments. This would reduce the incentive for consumers to cancel their policies and the potential loss to the servicers in the event of such a cancellation.

9.3.4 Error Resolution and Responses to Inquiries

The SERs indicated that errors were rare, but when they did occur, they were quickly resolved. The SERs stated that small lender/servicers have a high-touch customer service model, which made it very easy for borrowers to report errors or make inquiries, and to receive real-time responses. The SERs stated that, for reputational reasons, they preferred to correct errors quickly. The SERs expressed some concerns about the error resolution procedures being used in litigation, and about the burden imposed by having to track the responses to errors and inquiries to prove compliance with the regulatory requirements.

The Panel recommends that the CFPB seek comment on whether or not to include a catch-all to the enumerated list of errors to limit the liability of the servicers. Additionally, the Panel recommends the CFPB consider the following alternatives:

- Adopting a more flexible process for tracking errors and demonstrating compliance for small servicers.
- Requiring small servicers to comply with the error resolution procedures only when borrowers provide error notices in writing.

9.3.5 Reasonable Information Management Policies and Procedures

In general, the SERs had no objections to the requirement of establishing reasonable policies and procedures to achieve certain objectives, for example, providing accurate and timely disclosures and other information to borrowers, facilitate prompt correction of errors, and facilitate loss mitigation efforts, as specified at pages 21-22 of Appendix C to this report. They appreciated the fact that the Bureau is considering defining "reasonable" as depending upon the size, nature and scope of the entity – such that a policy considered reasonable for a small servicer may be very different from a policy considered reasonable for a large servicer. This approach would provide inherent flexibility for small servicers.

The Panel recommends the CFPB use the public comment process to solicit comment on further guidance that the CFPB may provide to clarify the types of policies and procedures that would be reasonable for small servicers.

9.3.6 Early Intervention and Continuity of Contact

Early Intervention

The SERs said they generally contact borrowers who fail to make payments long before the 45 day time period in the proposal under consideration. However, the content of the information that is currently provided by the SERs varies from the information outlined in the CFPB materials, and is often tailored to the individual borrower and his or her particular circumstances. Additionally, some SERs do not provide foreclosure information until after loss mitigation options have been explored.

The Panel recommends the CFPB consider more flexible early intervention requirements for small servicers or providing them with more flexibility in complying with the early intervention requirements in light of their existing practices.

Continuity of Contact

The SERs generally stated that with their small staffs, every employee has access to all the files and anyone would be able to assist borrowers in delinquency. Thus a special staff may not be required to handle the loss mitigation process.

The Panel recommends the CFPB include sufficient flexibility in the proposal under consideration to allow the successful current models of handling consumer contact to continue.

9.3.7 Prompt Crediting and Payoff Statements

Prompt Crediting

About half of the SERs indicated that they post partial payments, while the other half indicated that they held partial payments in suspense accounts, and posted the funds to the borrower's account when a full payment had accumulated. None of the SERs included late fees in calculating what constituted a full payment.

The Panel recommends the CFPB consider whether additional flexibility can be provided in the proposal for small servicers, to the extent that their current practices differ from the proposal and provide appropriate consumer protections.

<u>Payoff Statements</u>

The SERs stated they provide payoff statements quickly – immediately, within the hour, or within 24 hours. One SER noted there could be complications in a foreclosure or bankruptcy situation which may require additional time.

The Panel recommends the CFPB consider whether additional flexibility can be provided in the proposal for small servicers, to the extent that their current practices differ from the proposal and provide appropriate consumer protections.

9.3.8 Impact on the Cost of Business Credit

This question caused some confusion. The SERs stated generally that while the proposals could provide value to customers of large servicers who do not take a high-touch approach; the proposals under consideration would provide minimal additional benefit to such borrowers, while raising costs which would have to be passed on to borrowers. However, other than general concerns about overhead and compliance burden, the SERs did not identify any specific impacts on the cost of business credit.

<u>Appendix A</u>

Written Comments Submitted by SERs

[See attached]

-----Original Message-----
From: Erica Fischer [mailto:ericaf@sunsetbank.net]
Sent: Tuesday, May 01, 2012 1:46 PM
To: Ross, Rachel (CFPB)
Subject: RE: Reminder - Mortgage Servicing SBREFA Comments

Rachel,

I've attached a word document where I've answered the questions from one of the original documents we received with questions on each category (also attached). I hope this will be helpful and maybe address items not talked about last week. Thank you for the opportunity to give you the smaller bank's feedback on these important rule-making issues.

Erica R. Fischer

SVP Lending Operations

NMLS ID #747033
Sunset Bank & Savings

521 W Sunset Dr, Waukesha, WI 53189

Direct: 262-522-1154; fax 262-970-9090

RESPONSES TO DISCUSSION ISSUES FOR SERS

Topic A: Periodic Statements and Coupon Book Exception

1. We currently provide monthly billing statements and they are mailed out.

2. We currently **do not** provide the following on the statements: the current interest rate, the date on which the interest rate may reset, the amount of any prepayment fees to be charged, a description of any late payment fee (we do indicate the date after which any late fees will be assessed but do not provide the amount), contact information for housing counseling agencies or programs by HUD, loan maturity date, breakdown of year-to-date payments by principal, interest, escrow, fees and partial payment, policy regarding application of any additional payment received from borrower, policy regarding application of partial payments, foreclosure warning, summary of delinquency history and information about loss mitigation alternatives. Most of this information is readily available for us to add to the monthly statement except for calculations of prepayment penalties. We have 3 different calculation types depending on when the loan originated so this will be a manual process each month since our servicing system isn't capable of calculating the penalty. Rather, just a statement indicating that there is a prepayment penalty on the loan and a number to call for the amount would be a viable alternative. The housing counseling information is always included on any late/delinquent notices so this would be a duplication of information already provided for those who need it.

3. For the many small banks in Wisconsin that aren't currently able to produce monthly statements, this would entail roughly $150,000-$200,000 in one-time set up for new software, printers and paper supplies and $5,000-$6,000 in on-going monthly maintenance fees plus the cost of postage for mailing those statements. This additional cost could equate to 15-20% of the bank's monthly profits.

4. We do not currently store the information that will be required in a machine readable form. The data is stored in our mortgage servicing system through which we are able to request reports containing all of the data required – such as a data download for exams and audits. To make the forms machine readable would entail purchase of new mortgage servicing software/system that would print the machine readable forms and scanning equipment and software ranging in price from $200,000 to $250,000 one-time cost. Because all of the data is already stored in our mortgage data system we feel that this would be a duplication of efforts both in cost and in data availability.

5. Updates to our servicing system are done when needed, not on a regular schedule but typically at least quarterly.

6. We provide monthly billing statements but many banks in Wisconsin use coupon books as well as mortgage passbooks for fixed rates and ARMs. For those banks, 100% of their borrowers get the coupon book or the mortgage passbook even if they choose to do online banking which is an option at many small banks. One of your concerns with a coupon book or mortgage passbook is "how do the borrowers know when to make their payments if they don't receive monthly billing statements?" The small bank's response is that 99% of our customers are responsible borrowers who know when their bills are due whether or not they get a monthly reminder. For them, this is no different than paying their monthly rents before they owned the home. The landlord didn't send the tenant a monthly reminder to pay their bill. They knew that the payment was due on the 1st and that is the same situation with the monthly mortgage payment. For the remaining 1%, a phone call prior to the expiration of the grace days is usually all it takes and in a small bank, this is standard procedure. As far as the additional information that is going to be required, currently the small bank customer knows that all of this information can be obtained by either a simple phone call to their banker or a knock on the door of their banker on one of their weekly visits to the branch. As an alternative, it may be less costly for some small banks to provide this additional information on their websites with an e-signature indicating acknowledgement rather than through monthly billing statements.

Topic B: Adjustable Rate Mortgage Disclosures

1. We send out ARM rate adjustment disclosures 44 days prior to the rate adjustment date and 74 days before the payment adjustment date. Per the ARM closing documents, the rate is set 45 days prior to the actual rate adjustment date. The same timeframe is in place for both initial disclosures as well as annual ARM disclosures.

2. We currently do not provide the following on our statements: a good faith estimate of the rate and payment (only the *actual* rate and payment), a list of alternatives, contact info for HUD, contact info for the State housing finance authority, key terms of the ARM, prepayment penalty info, rate or payment limits and amortization info.

3. We are on the Fiserv core servicing system and they would be required to modify the form to the CFPB's required form. Because we are currently doing the annual disclosure after initial adjustment, no additional cost to prepare. There would be added postage costs for the initial disclosure proposed 6-7 months before the actual rate change because we would also continue to send out the actual rate change notice 74 days prior regardless if Reg Z no longer requires the initial reset notice. This is a document our borrowers are already familiar with and know that the rate is adjusting when they see this form. They do not look to the monthly billing statement for those same changes. We don't feel that the 6-7 month notice is neither necessary nor beneficial to the

borrower. In fact, it will only confuse most borrowers when they get their actual rate change notice and it may be different. (Once rates start rising steadily – it *will* be different). Since the disclosure will become mandatory, a notice indicating that their rate may adjust in 6-7 months as a heads-up rather than an estimate of what it will adjust to would be a better alternative.

4. See answer to # 5 above.

5. We have done 1/1, 2/1, 3/1, 4/1, 5/1 and 7/1 ARMs at various periods in our 12 year existence. In our experience, none of the adjustments have been problematic because in the past 8 years, the rate has only gone down or stayed the same. Prior to that, when the rate did adjust up, we had no problems with our borrowers, primarily because they were qualified at the 2% cap rate and none of our loans have ever gone up the full cap rate at the first adjustment. I believe the other reason we've never had a problem is because when our borrower gets this loan, they fully understand the type of loan they are applying for and all of the potential changes that could occur. We and most SERS do a very good job of explaining the loan to the borrower so there are no surprises and also of making sure the borrower fully understands the loan.

Topic C: Force-Placed Insurance

1. We do not have any vendor costs at this time. All of the insurance monitoring, communications with borrowers and force-placing insurance is done by in-house loan staff.

2. Our current notice does not include an estimate of force-placed costs. We also do not send the borrower a notice after we've force-placed the insurance. We have force-placed insurance on 2 properties in 12 years and in both cases, we ended up taking the property back in foreclosure so were never able to collect the premium from the borrower. The problem is not prevalent in the SER world. If a borrower stops paying their HO insurance, they probably aren't paying their mortgage either. When we receive a cancelation notice from the insurance agency or find in our tracking spreadsheet that we never received a renewal, a call is placed to the borrower and the problem is usually quickly resolved with the borrower paying the premium due or we discover that a new insurance policy is in place from a different agency. If we are unable to reach the borrower, we do send them a notice asking for evidence of insurance or the agent name and number so we can track it directly with the agent. The problem with the bank paying the premium for the borrower to avoid high cost force-place insurance is that if the policy is cancelled by the borrower, the premium paid by the bank is returned to the borrower.

3. We do not have any force-placed insurance policies in place currently so have not established any practices in respect to renewals. I don't believe we would

incur any costs other than postage to send out written disclosures to borrowers prior to renewing their force-placed insurance.

4. We would need to put a written procedure in place for force-placed insurance and required disclosures. If the intent is to provide it to all borrowers in the event of insurance disruption, we would provide the disclosure at closing. If only to the borrowers whose polices lapse, then we would document the file with copies of disclosures and dates of mailing. The costs would definitely increase due to postage, supplies and additional staff hours needed to send out the disclosures and track those with force-placed insurance.

5. We are in the process of changing insurance companies for force-placed insurance and I don't know the answer to that question.

6. We currently to do not collect escrow for hazard insurance unless the borrower requests it. If the borrower is escrowing and does not make a required monthly payment, thereby leaving the account short for payment of 1 year of insurance, we would advance the money to pay and collect the shortfall through the escrow analysis. I don't believe we would ever force-place the insurance since we are in control of the premium being paid to the borrower's own insurance agency so the rules would not apply in this situation.

Topic D: Prompt Crediting and Payoff Amounts

1, 2 & 3. For first mortgages, the partial payments are held in a suspense account on the loan until the full payment (excluding late charges) is made. The system then automatically applies the payment to the earliest delinquency and bumps the due date. For 2nd mortgages (simple interest loans), the partial payment is applied and will satisfy the outstanding interest first. Once the amount of the scheduled payment is received, the due date is bumped to the following month. Depending on when the rest of the payment is received will determine whether any principal is reduced or if all of that month's payment goes to interest. If a borrower is consistently late, this in turn can make the balloon payment larger at maturity. Because the Fiserv servicing system does this automatically, there would be no additional cost to the bank. I am unaware of how other banks in the area post these partial transactions. As far as requests for payoff amounts, all requests-whether written or verbal or responded to within 3 business days so any changes made will not be a burden to follow.

Topic E: Error Resolution and Responses to Inquires

1. When a customer contacts us regarding an error, if the contact is verbal (typical), the error is addressed and usually resolved that same day with contact made back to the customer verbally that the error has been corrected. If the request is in writing via email, we will respond back in writing via email. To date, we have never had a qualified written request at this bank. If we did,

we would follow the regulatory requirements for response. The error list does contain all errors that we have encountered and appears complete. We would not agree that a catch-all category should be included on the list. Catch-all categories are too vague for banks to follow to stay in compliance and for training purposes. The list you provide does appear to be complete.

2. The only issue we see with the time frames is the method of acknowledgement if the borrower request is verbal. We, as a SER, have never had a problem with resolving errors and responding to complaints or inquiries because of the sheer size of our staff. When a call comes, there are only 2 people that would handle the call but both of these people wear multiple hats. If that problem isn't resolved before the end of the day, the customer will contact the CEO the next day for resolution. This rarely happens since, as I stated before, most errors, complaints and inquiries are handled the same day they come in, if not in the same phone call. Since the proposal is also looking at inquiries, it would be a burden to our small staff to have to respond in writing to every inquiry, complaint, error, etc. The exclusion for routine inquires would be a viable alternative for us but would like this list expanded to include corrections to accounts where the borrower didn't provide direction so the correction of the payment is at the borrowers request after the payment has already been posted. For instance the borrower sends $100 additional payment with their monthly payment with no direction as to where to apply it. The teller posts it as a regular payment and the extra gets applied to principal but the borrower wanted it applied to next month's payment. In this case, the verbal call is made, we make the correction and no written acknowledgement would need to go to the borrower. Your concern is that the customers are not being responded to by the banks but that is just not the case with the SERs where all staff members are very involved and concerned about the customer service we give. Plus the potential for fraudulent lawsuits where the bank does not respond in writing to a supposed "verbal request" becomes greater. How does the bank prove they never got the verbal request to respond to it in the first place? By requiring the customer to put that request in writing, you are laying the groundwork for better response time back to the customer if banks are required to respond in writing to that provable request. I believe part of the ongoing cost to this written response is additional staffing.

Topic F Reasonable Information Management Policies

1. Yes, the way we currently manage information allows us to meet most of the duties stated in the proposed policies and procedures. Our documents are stored on site in locked, fire proof filing cabinets. Once the loan is paid off, the file is scanned and stored electronically.

2. The only duty I feel that would be a burden and potential regulatory violation would be the record maintenance of borrower contact. Many times, in the bank lobby, the borrower will stop one the 2 people servicing the loans to ask a question.

Typically the question is answered and that employee continues on their way to whatever task they were in the process of performing and that leaves us open to non-compliance if the employee doesn't immediately document the customer's file. I believe that SERs should be exempt from this specific portion of the rule due to the small staff that maintains contact with the customers.

Topic G: Early Intervention and Continuity of Contact

1, 2 & 3. In all aspects of this rule, the SERs (including us) are contacting the customers well before the 45 days specified. Our delinquency and collections policies and procedures are more restrictive than the proposal so I don't see any additional costs to comply with the rules. The only issue would be for those SERs that sell to the agencies. The agencies have recently modified their collection procedure requirements to be much more restrictive and the additional requirements (duplication) would be burdensome to the staff as well as add additional cost in the way of postage, staffing and training. An alternative would be that an exemption would apply for loans that are sold to the agencies. Regarding contacting the delinquent borrower in writing, due to the smaller staffs and the customer familiarity, the SERs are also more proactive in working with their customers to provide relief (either immediate or long-term) in hardship cases such as job loss, divorce or death. When a loan goes delinquent, if phone contact isn't able to be made, a personal visit to that borrower's home or workplace is made. We typically do not have a specific written policy in place that could be sent to the borrowers as an alternative to foreclosure because we approach each delinquency differently, depending on the situation, looking at the best alternative for the borrower.

Topic H: Impact of the Cost of Business Credit

1. Of course there will be an impact on the cost of business credit since most SERs operate as a whole entity not divided up between departments. If the costs are increased on the mortgage loan side, the fees would probably go up on the commercial side of the bank to attempt to make up some of the losses. If the cost of the periodic statement is too significant for the SER to continue offering portfolio loans and servicing sold loans, the SER would then have to make up that loss through their commercial loans through increased rates and fees. Many SERs that are in outlying areas strictly offer the mortgage loans as a convenience to the customers that aren't able to qualify for secondary market loans so if the cost of the periodic statement requirement can't be met, those customers will not be able to get a local loan to fund the purchase of their homes unless they travel to the bigger cities. Margins are extremely slim now for the banks and the safety and soundness regulators (both state & fed) have indicated to us that they are looking for increased margins in future exams. The additional regulatory costs will only reduce those margins.

First National Bank of Moody

Glen C.Thurman
President
P.O. Box 128
7th and Avenue D
Moody, Texas 76557

Telephone (254)853-2115
Fox (254)853-2955

May 1, 2012

The Honorable Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, D.C. 20552

Re: SBREFA Panel for Mortgage Servicing Rulemaking

Dear. Mr. Cordray:

I would like to thank you for the opportunity to participate with other small financial firms on the recent SBREFA panel for Mortgage Servicing Rulemaking. My bank, First National Bank of Moody Texas is a $42 million asset community bank located in Moody Texas, a community of just over 1300 in population. First National Bank of Moody is a family owned community bank with a single location dedicated to serving our community. We make mortgage loans which are held in portfolio, and we service all mortgages we originate.

As a small institution with only 13 employees, we all wear many hats, have multiple duties, and work very hard to meet our customers' needs and support our community. As discussed during the meeting our primary focus is on helping our customers make good financial decisions, and working with them when they have difficulty meeting their obligations. In fact, we explore every possible avenue to help a struggling customer through a difficult period and work out their mortgage loan so they can remain in their home. Since we generally know our customers on a personal basis, doing anything other than what's in the best interest for the borrower would jeopardize our reputation in our community and put my bank at risk. The last thing we ever want to do is to foreclose on a neighbor's home. Unlike the large national servicers, customers are more important to us than high volumes of transactions. This is a very important distinction between community banks and the large national servicers. We know our customers, they know us, and in fact transact much of their business with the bank in person. So they always know where to go if there is a problem. We resolve issues quickly, and work hard to help our customers when they have problems. Over the last 5 years, First National Bank of Moody has only had to foreclose on two mortgage loans, and in both cases the foreclosures were due to divorce.

In developing the final rules for mortgage servicing, I hope the CFPB will recognize the very important difference in our business model compared to the large national servicers. I urge the CFPB to fully utilize its authority to exempt or modify these rules for community banks, so that they do not impose unnecessary, excessive and expensive burdens on us which may lead to my bank and others like mine, to exit the mortgage lending business. This unfortunate outcome would harm consumers by further restricting credit in small towns and rural communities along with driving further consolidation of the mortgage business to the largest national mortgage lenders which caused the financial crisis and committed the mortgage servicing abuses that you are now trying to address.

The following comments are offered for your consideration.

1. **Periodic Statements. Do not require additional periodic statements/billing statements beyond what a community bank currently provides.** My bank currently provides a monthly statement which gives the borrower all of the critical information regarding their account and the payment that is due. We provide the borrower with the phone number of our office if they have a question or a problem in making their payments. As stated earlier many of borrowers make their mortgage payments in person at the bank where they can always get up to date information on their account. Having to produce and mail additional statements, or add additional language regarding specific housing counselors will require a significant and costly upgrade from my core system provider. Those costs will be passed on to the consumer.

2. **Adjustable Rate Mortgage Disclosures. Do not require an additional notice of adjustment 6 months prior to the initial adjustment.** We currently provide a notice of adjustment which includes the index value, margin, total new interest rate, total new payment and the effective date of the new payment amount. The interest rate and new payment amount on that notice is accurate. However, issuing a similar statement 6 months prior to adjustment date would require us to issue an estimated interest rate and payment, which is likely to be different than the borrower's interest rate and payment amount at adjustment. This will only create confusion with the borrower and will not help them plan for the rate change. Creating an additional disclosure will also require a system upgrade from our vendor, which will be costly. The current timeline for adjustment notices is adequate to permit the borrower to plan and if necessary seek a refinance to avoid the rate change. First National Bank of Moody has been writing an in house ARM for over 25 years, and the notice sent to our customer and the procedures used by the bank to make the adjustment has never caused a problem with our mortgage customers. Please do not provide a costly fix to a problem that does not exist in the community bank business model.

3. **Forced Placed Insurance. Permit community banks to purchase forced place insurance as soon as they are notified of a lapse in coverage by the borrower's carrier for non-payment.** Unlike the large national mortgage servicers, the commission earned by community banks on forced place insurance is negligible. For all of 2011 total commission earned by First National Bank of Moody on all forced place insurance (mortgage, commercial and consumer) was only $221.95. If forced placed insurance is required, it's because the homeowner has let the insurance lapse, causing both the bank's collateral for the loan and any equity the homeowner has in the property to be at risk. This presents safety and soundness risks for the bank. We always try to get the coverage placed with the original carrier if possible, but if not, we will use another provider. If the borrower subsequently gets

coverage, we only ask for the agent's name and contact information. Once the borrower's coverage is confirmed, we cancel the forced place policy and refund any premiums charged to the borrower pro rata. We are concerned that the CFPB's proposal requiring the bank to wait 45 days to purchase this coverage puts the bank and the customer at risk of something happening to the collateral for the loan. Weather events can cause significant damage causing big losses to the consumer and the bank. While a $30,000 loss isn't significant to a large national servicer, it has a big impact on our bank. Providing coverage quickly protects both the bank and the consumer.

4. **Error Resolution and Responses to Inquiries. Permit community banks flexibility in tracking and documenting responses.** As discussed during the session, the majority of errors (if any) or inquiries from customers are handled and resolved immediately, usually while the borrower is on the phone or at the bank. We have never received a QWR but if we do we would respond immediately as well. We do not have an automated tracking system for these requests and request that community banks be exempted from implementing one. We do not send out a written statement to borrower confirming that we have resolved their issue or answered their inquiry. Such statements would be wasteful in terms of time to produce them, and the postage to mail them. We would request that community banks be exempt from having to provide these statements.

5. **Reasonable Information Management Policies. Permit community banks flexibility in complying with this policy.** Community banks generally do not have robust loan servicing systems that permit on line collaboration, or have the ability to record and track all borrower communications and interactions. First National Bank of Moody does not have any such system and can not afford the expense to put such a system in place and does not require such a system to provide excellent service to our customers. Many times notes are hand written by the bank staff, or there may be copies of email exchanges placed in the file. We would request that community banks be permitted to continue these practices which are effective for our bank and not be required to make expensive and unnecessary system upgrades.

6. **Early Intervention and Continuity of Contact. The CFPB should work with the FHFA to align these policies with those required by the GSEs for servicing mortgages.** For mortgage loans serviced by community banks for the GSEs, we have to comply with similar standards on early intervention and continuity of contact. There is no reason to have an additional set of rules in this area and we urge the CFPB to work with the FHFA on aligning their policies. Loans that we hold in portfolio are generally serviced the same way. We have a small staff that service mortgage loans, and they service all types of loans for the bank. We contact borrowers usually by the 16th of the month, and sometimes sooner. Our borrowers will work with the same person throughout the collection process and loss mitigation process. Many times, they come into the bank to meet with that person or the loan officer who made loan. We would ask that the proposed rules recognize this difference between community banks and large national servicers by permitting flexibility for community banks on their implementation of this policy.

7. **Prompt Crediting and Payoff Amounts. The CFPB should work with the FHFA to align these policies with those required by the GSEs for the crediting of payments and for providing payoffs.** We always credit payments immediately, usually while the borrower is standing at the teller window. In all cases, payments (partial payments included) are credited on the day received. We provide payoffs promptly when requested, as part of good customer service.

8. **Impact on the cost of business credit. The CFPB should recognize that all changes, especially those that require system upgrades, increase the overall cost of all types of credit.** We are a small organization and while pricing for business loans is different than mortgage credit, increased costs for one do get spread across all lines of credit. We urge the CFPB to carefully consider this when writing rules that require technology upgrades or could require additional staff to manage and monitor.

In conclusion, I appreciate the opportunity to participate in the SEBRFA process on the proposed mortgage servicing rulemaking. I urge the CFPB to exempt or permit flexibility for community banks like mine when writing rules that would require changes to our current processes, or require expensive upgrades to our servicing systems to accommodate new changes. As stated earlier in this letter, we deliver high quality personal service to all our customers, and work to resolve problem loans quickly. Our customers come into the bank to see us when an issue arises, and we work with them on a personal basis to resolve it. Highly prescriptive and redundant procedures and requirements will not result in any improvement in our customer service, but will unnecessarily increase our costs and the costs to our borrowers. For many community banks, the cumulative effect of additional regulatory burden in the mortgage arena may lead them to exit the business, further concentrating the industry to the detriment of consumers. Our servicing business model is very different than the large national servicers and I urge the CFPB to recognize these differences in its rulemaking.

If you have any questions, please feel free to contact me.

Sincerely,

Glen Thurman
President / CEO
First National Bank of Moody Texas

Ross, Rachel (CFPB)

From: Brian Barkdull <bbarkdull@ascu.org>
Sent: Tuesday, May 01, 2012 3:51 PM
To: Ross, Rachel (CFPB)
Subject: RE: Reminder - Mortgage Servicing SBREFA Comments
Attachments: image002.png

Thanks Rachel.

I do not have any written comments to submit.
Regards,
Brian

Brian J. Barkdull
President/CEO
520-452-3099

From: Rachel.Ross@cfpb.gov
[mailto:Rachel.Ross@cfpb.gov] Sent: Tuesday,
May 01, 2012 10:21 AMTo: bbarkdull@ascu.org
Subject: Reminder - Mortgage Servicing SBREFA Comments

Dear Mr. Barkdull ,

Thank you for taking the time to participate in our panel meeting last week.
As a reminder, to the extent you have any; comments are due by close of business today.
Sincerely,
Rachel

Rachel Ross
Research, Markets & Regulations
<mailto:rachel.ross@cfpb.gov> rachel.ross@cfpb.gov
Tel: 202 435-7635 | Mob:
202 591-6915
consumerfinance.gov

Ross, Rachel (CFPB)

From: Frank Altman <Frank@crfusa.com>
Sent: Tuesday, May 01, 2012 1:42 PM
To: Ross, Rachel (CFPB)
Subject: Re: Reminder - Mortgage Servicing SBREFA Comments

I appreciated the opportunity to participate, but I will not have any written comments.

Thanks. Sent from my iPhone
On May 1, 2012, at 1:20 PM, "Rachel.Ross@cfpb.gov<mailto:Rachel.Ross@cfpb.gov>" <Rachel.Ross@cfpb.gov<mailto:Rachel.Ross@cfpb.gov>> wrote:

Dear Mr. Altman,
Thank you for taking the time to participate in our panel meeting last week. As a reminder, to the extent you have any; comments are due by close of business today.

Sincerely,
Rachel

Rachel Ross
Research, Markets & Regulations
rachel.ross@cfpb.gov
<mailto:rachel.ross@cfpb.gov>
Tel: 202 435-7635
Mob: 202 591-6915
consumerfinance.gov<http://consumerfinance.gov>

Cumberland
SECURITY BANK

April 27, 2012

The Honorable Richard Cordray, Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, D.C. 20552

Re: SBREFA Panel for Mortgage Servicing Rulemaking

Dear. Mr. Cordray:

I would like to thank you for the opportunity to participate with other small financial firms on the recent SBREFA panel for Mortgage Servicing Rulemaking. My bank Cumberland Security Bank is a $163,000,000 Asset community bank located in Somerset, KY. We make mortgage loans which are held in portfolio, as well as sold in the secondary market to both Freddie Mac and Fannie Mae. We service all mortgages we originate.

As a small institution with only 67 (59FTE and 7 PT) employees, we all wear many hats, have multiple duties, and work very hard to meet our customers' needs and help our community. And as discussed during the meeting our primary focus is on helping our customers make good financial decisions, and working with them when they have difficulty meeting their obligations. In fact, we explore every possible avenue to help a struggling customer through a difficult period and work out their mortgage loan so they can remain in their home. Since we generally know our customers on a personal basis, doing anything other than what's in the best interest for the borrower would jeopardize our reputation in our community and put my bank at risk. Unlike the large national servicers, customers are more important to us than high volumes of transactions. This is a very important distinction between community banks and the large national servicers. We know our customers, they know us, and in fact transact much of their business with the bank in person. So they always know where to go if there is a problem. We resolve issues quickly, and work hard to help our customers when they have problems.

In developing the final rules for mortgage servicing, I hope the CFPB will recognize this very important difference in our business model compared to the large national servicers. I urge the CFPB to fully utilize its authority to exempt, or modify these rules for community banks, so that they do not impose unnecessary, excessive and expensive burdens on us which may lead to my bank and others like mine, to exit the mortgage lending business. This unfortunate outcome would harm consumers more by further restricting credit in small towns and rural communities along with driving further consolidation of the mortgage business to the largest national mortgage lenders which caused the financial crisis and committed the mortgage servicing abuses that you are now trying to address.

The following comments are offered for your consideration.

1. **Periodic Statements. Do not require additional periodic statements/billing statements beyond what a community bank currently provides.** My bank currently provides a coupon book which gives the borrower all of the critical information regarding their account and the payment that is due. We provide the borrower with the phone number of our office if they have a question or a problem in making their payments. As stated earlier many of borrowers make their mortgage payments in person at the bank where they can always get up to date information on their account. Having to produce and mail additional statements, or add additional language regarding specific housing counselors will require a significant and costly upgrade from my core system provider. Those costs will be passed on to the consumer.

2. **Adjustable Rate Mortgage Disclosures. Do not require an additional notice of adjustment 6 months prior to the initial adjustment.** We currently provide a notice of adjustment which includes the index value, margin, total new interest rate, total new payment and the effective date of the new payment amount. The interest rate and new payment amount on that notice is accurate. However, issuing a similar statement 6 months prior to adjustment date would require us to issue an estimated interest rate and payment, which is likely to be different than the borrower's interest rate and payment amount at adjustment. This will only create confusion with the borrower and will not help them plan for the rate change. Creating an additional disclosure will also require a system upgrade from our vendor, which will be costly. The current timeline for adjustment notices is adequate to permit the borrower to plan and if necessary seek a refinance to avoid the rate change.

3. **Forced Placed Insurance. Permit community banks to purchase forced place insurance as soon as they are notified of a lapse in coverage by the borrower's carrier for non-payment.** Unlike the large national mortgage servicers, community banks don't receive commissions on forced placed insurance. If forced placed insurance is required, it's because the homeowner has let the insurance lapse, and now the bank's collateral for the loan is at risk. This presents safety and soundness risks for the bank. We always try to get the coverage placed with the original carrier if possible, but if not, we will use another provider. If the borrower subsequently gets coverage,

we only ask for the agent's name and contact information. Once the borrower's coverage is confirmed, we cancel our policy and refund any premiums collected from the borrower. We are concerned that the CFPB's proposal requiring the bank to wait 45 days to purchase this coverage puts the bank and the customer at risk of something happening to the collateral for the loan. Weather events can cause significant damage causing big losses to the consumer and the bank. While a $30,000 loss isn't significant to a large national servicer, it has a big impact on our bank. Providing coverage quickly protects both the bank and the consumer.

4. **Error Resolution and Responses to Inquiries. Permit community banks flexibility in tracking and documenting responses.** As discussed during the session, the majority of errors (if any) or inquiries from customers are handled and resolved immediately, usually while the borrower is on the phone or at the bank branch. I cannot recall receiving a QWR but if we do we would respond immediately as well. We do not have an automated tracking system for these requests and request that community banks be exempted from implementing one. We do not send out a written statement to borrower confirming that we have resolved their issue or answered their inquiry. Such statements would be wasteful in terms of time to produce them, and the postage to mail them. As stated prior we know our customers and our reputation is at risk if we do not handle this promptly. We would request that community banks be exempt from having to provide these statements.

5. **Reasonable Information Management Policies. Permit community banks flexibility in complying with this policy.** Community banks generally do not have robust loan servicing systems that permit on line collaboration, or have the ability to record and track all borrower communications and interactions. Many times notes are hand written by the bank staff, or there may be copies of email exchanges placed in the file. We would request that community banks be permitted to continue these practices which are effective for our bank and not be required to make expensive and unnecessary system upgrades.

6. **Early Intervention and Continuity of Contact. The CFPB should work with the FHFA to align these policies <u>with those required by the GSEs for servicing</u> mortgages.** For mortgage loans serviced by community banks for the GSEs, we have to comply with similar standards on early intervention and continuity of contact. There is no reason to have an additional set of rules in this area and we urge the CFPB to work with the FHFA on aligning their policies. Loans that we hold in portfolio are generally serviced the same way. We have a small staff that service mortgage loans, and they service all types of loans for the bank. Our lenders contact borrowers usually by the 16th of the month, and sometimes sooner. The borrowers will work with the same person throughout the collection process and loss mitigation process. Many times, they

come into the bank to meet with that person or the loan officer who made loan. We would ask that the proposed rules recognize this difference between community banks and large national servicers by permitting flexibility for community banks on their implementation of this policy.

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In conclusion, I appreciate the opportunity to participate in the SEBRFA process on the proposed mortgage servicing rulemaking. I urge the CFPB to exempt or permit flexibility for community banks like mine when writing rules that would require changes to our current processes, or require expensive upgrades to our servicing systems to accommodate new changes. As stated earlier in this letter, we deliver high quality personal service to all our customers, and work to resolve problem loans quickly. Our customers come into the bank to see us when an issue arises, and we work with them on a personal basis to resolve it. Highly prescriptive and redundant procedures and requirements will not result in any improvement in our customer service, but will unnecessarily increase our costs and the costs to our borrowers. For many community banks, the cumulative effect of additional regulatory burden in the mortgage arena may lead them to exit the business, further concentrating the industry to the detriment of consumers. Our servicing business model is very different than the large national servicers and I urge the CFPB to recognize these differences in its rulemaking.

If you have any questions, please feel free to contact me.

Sincerely,

CUMBERLAND SECURITY BANK

Mark Ross
Executive Vice President

Ross, Rachel (CFPB)

From: Mark Warshal <mwarshal@epix.net>
Sent: Friday, April 27, 2012 12:36 PM
To: Ross, Rachel (CFPB)
Subject: Follow-up from SBREFA Outreach Session - Please Make Part of Public Record

April 27, 2012

Ms. Rachel Ross
CFPB
Research, Markets & Regulations

Dear Ms. Ross:

Please accept my thanks for being given the opportunity to participate in the SBREFA Outreach Session which took place on April 24, 2012. This being my first contact with the CFPB, I came away from the meeting extremely impressed with the professionalism of the bureau. The use of technology that allowed me to participate remotely was terrific. The distribution of written materials well prior to the meeting date, including a detailed agenda, was most appreciated. The straightforward and logical manner in which the meeting was conducted was refreshing. I have to say, the level of both organization and execution was superb. I am certain that the CFPB is a shinning example of how a government organization can and should be run.

The purpose of this letter to the CFPB is to address an issue which was brought up several times by David Stein, Esq., the CFPB representative who moderated the outreach session. While discussing several of the discretionary areas where the CFPB has the authority to make exemptions for small loan servicers who make and service their own fixed term, fixed rate loans, Mr. Stein expressed his concern that any exemptions from regulation would create two classes of consumers -- consumers with different rights based upon the size of their loan servicer.

It is my belief that when Congress enacted the Dodd-Frank Act, it was not intending to create new additional rights for consumers as much as it was intending to regulate different classes of loan servicers. The difference is in the focus. Congress was focused on regulating bad actors in the loan servicing business, while providing exemptions to the smallest loan servicers who were doing things the right way already.

The fact is, all loan servicers are not the same. As a consumer myself, I can attest that the largest loan servicers are extremely difficult to deal with. One must traverse endless telephone menu systems just to get to a customer service representative who will inevitably indicate that you have reached the wrong department and must call a different toll- free number. I would concede that the largest loan servicers might need additional regulations so that they better respond to the needs of their customers.

But for a small, family owed company like Fairway Consumer Discount Co., and the hundreds of other companies like us, the ability of the consumer to speak with his loan servicer is absolutely never an issue. As owner operators, we have every incentive to communicate continually with our borrowers. We are not dealing with an OPM situation, OPM meaning "other people's money". We are lending our own money, retaining ownership, and servicing the loans. When a loan goes bad, it is our own money that is being lost. Consequently, we have every incentive to speak with our customers whenever they are having a problem. Customers knowing the statuses of their accounts is absolutely never an issue.

I am hopeful that you now understand that the customer experience with a small loan servicer is, and always has been, much different and much better than that which a customer experiences at a large servicer.

Unfortunately, the costs of additional regulations will disproportionately injure the smallest loan servicers like mine, while most likely not even marginally improving our customers' experiences. We are small businesses. We do not have IT staff. We don't have compliance officers. Every new regulation is a major problem for us to procedurally implement, even though we have been complying with the spirit of the regulation already. Above all, every new regulation has costs, and the additional costs imposed by the new regulations being proposed by the CFPB are significant. Small loan servicers like Fairway Consumer Discount Co. are the ones that are least able to handle these increased costs.

My great fear is that the CFPB's new regulations will push the smallest loan servicers like mine out of business, thereby eliminating the servicers who were giving the absolute best customer service. Ultimately, only large servicers will exit and consumers will no longer have the choice of going to their local finance company to get the money they need. This is not in the best interest of consumers.

The issue is not different classes of consumer rights. The issue is different classes of loan servicers. There already exist several laws relating to the lending business, including RESPA itself, which are dependent upon the size of the lender. This is further evidence of the long held belief of Congress that the size of the entity being regulated does matter.

Congress, in the Dodd-Frank Act, spelled out several areas where it intended that the smallest loan servicers be exempted from regulation. These areas were well identified during the outreach session. I urge you to cautiously use the CFPB's discretionary powers to implement regulations that will unduly harm the smallest loan servicers, particularly small companies that make, retain and service fixed term, fixed rate loans using their own money. We are not the businesses that created the mortgage mess. It seems particularly unjust to punish us with regulations that are costly and burdensome to comply with, especially given the clear intent of Congress to spare us this terrible burden.

I urge you to provide to the smallest loan servicers, at every opportunity that you are statutorily able, an exemption from costly and burdensome regulations that do not give our customers even a marginally better customer experience.

Thank you again for having allowed me to participate in the outreach panel. If I can be of any additional service to you, please do not hesitate to let me know.

Mark Warshal
NMLS ID 106231
Fairway Finance
8 Marion St.
PO Box 12
Luzerne, PA 18709
570-288-4535
www.FairwayLoans.com

Security Savings BANK

Part of your community, part of your life.

220 East Broadway, PO Box 800
Monmouth, IL 61462
309-734-9333

May 1, 2012

By electronic delivery to:
Dan.Sokolov@cfpb.gov

Mr. Dan Sokolov
Deputy Associate Director
Research, Markets & Regulations Division
Consumer Financial Protection Bureau
1700 G Street, N.W.,
Washington, D.C. 20006

Re: Comments of Small Entity Representative Randy McElwee to the small business review panel for the rule making on mortgage servicing disclosures

Mr. Sokolov:

I appreciate having the opportunity to serve as a small entity representative (SER) to the Small Business Regulatory Enforcement Fairness Act Review Panel (SBREFA Panel or Panel) assembled to provide input on the costs and benefits of proposals to implement new mortgage servicing disclosures required by sections 1418, 1420, 1463(a), and 1464(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). I want to acknowledge the outstanding work of the staff that organized the April 24, 2012 meeting of SERs. The hearing was well managed and made very efficient use of the time available. As requested at the close of the meeting, I offer the following written comments about the proposals under consideration.

I am a Vice President of Security Savings Bank located in Monmouth, Illinois with responsibility for overseeing our Consumer, Mortgage, and Commercial Lending and loan servicing department. Security Savings Bank is a 130 year old mutual savings bank with approximately $173M in assets. Our bank has two branch offices and employs forty full-time staffers, including six loan officers and three loan processors. Security Savings Bank holds eighty percent of the mortgages we originate in portfolio, and we retain servicing on all loans sold in the secondary market; we currently service $30M in residential mortgage loans.

I preface my comments by urging the Panel to recognize that an unintended consequence of the current mortgage reform effort may be to seriously limit the ability of small banks to serve their communities. Indeed, in the rural Midwestern Illinois market we serve, there are no branch offices of large banks with full time mortgage originators or servicers on staff. There are only are five small community banks, our size and smaller, headquartered in the two county market, and it is my understanding that at least two of our competitors are currently evaluating whether they can continue to underwrite and service mortgage loans in light of the anticipated compliance costs resulting from Dodd-Frank Act implementation.

My experience with the only two mortgage loans that have become delinquent in the last several years is a good example of the highly responsive community bank servicing model. A few months after closing on a mortgage loan, one of our customers had a stroke that left him disabled and unable to return to work in his job with the U.S. Postal Service. He became past due on his mortgage within a few months. Another servicer might have initiated foreclosure proceedings as the delinquency dragged on, but we worked with our customer, waiting fourteen months until his postal service disability benefits started and he was able to resume making his monthly payment. Since then, the customer has never missed a mortgage payment. Similarly, when a couple, became 180 days delinquent on their mortgage loan, we asked them to come into the bank to discuss the delinquency. During a review of the couple's finances, we discovered that one of the individuals had developed a gambling problem. We offered personal counseling and worked with them to bring the loan current when other banks may have found it more expedient to foreclose. The couple has not missed a payment for over three years.

I hope that these examples and those provided by other SERs during the April 24th meeting demonstrate that the standards for servicing being considered by the Consumer Financial Protection Bureau (Bureau) are being met voluntarily today by community banks. Imposing a highly prescriptive servicing regimen on small institutions will not advance consumer protection; rather, it may force more and more small banks to exit the mortgage lending and servicing business to the detriment of consumer protection, choice, and access to credit.

Responses to Specific Questions:

A. PERIODIC STATEMENTS

1. **Do you currently provide borrowers with a periodic statement? If so, how do you distribute it (mail, email, website, portal, other)?**

We provide 70% of our borrowers with a loan passbook; the other 30% have elected to use online banking. The loan passbook is a tri-fold payment card which contains basic loan payment details, contact information, and it also serves as a record of previous transaction activity, recording how each payment was allocated to principal and interest, escrows, late charges, and fees. A payment and passbook can be presented at the teller line or drive-through for immediate posting, or a customer can mail the payment and passbook to the bank. Each transaction is imprinted in the loan passbook when the payment and passbook are presented for payment; approximately 55 transactions can be imprinted in each book. Because each passbook contains a record of previous loan payments, our customers prefer passbooks to paper or electronic statements or payment coupons. In fact, during our 2009 change of core processors, customer demand required us to work with the new core processor to accommodate the continued use of loan passbooks. (A sample payment passbook is attached.)

2. Take a look at the information that may be required on the proposed periodic statement disclosure. If you provide a periodic statement disclosure, what information on this list do you not currently provide? Why not?

I am concerned that the proposed list of information to be included on periodic statements will prevent our continued use of passbooks. Rather than forcing all banks to use a model paper or electronic statement that includes non-payment specific information (i.e., information about the servicer's policies for application of additional payments, partial payments, and amortization for payment option loans), I believe that banks like mine that use passbooks or coupons should be permitted to post this information on the bank website for customers to access as needed.

Similarly, I believe that information about loss mitigation and consumer counseling should not be required to be printed on periodic statements, coupons, or passbooks. This information can be made available on the website and a web address link to that information can be included in the delinquency statements mailed to delinquent customers. Alternatively, if the Bureau believes that it is important to provide this information directly to customers, I suggest that we do so with an annual disclosure issued, on paper or electronically, simultaneous with the annual escrow analysis.

Finally, if periodic statements are required, I urge you to permit customers to opt-out of receiving them as we permit our customers to forgo a passbook and instead use our electronic and online banking services. More and more of our customers are choosing to "go green" and to use electronic banking services. These customers recognize that they can find all the information they need on either our website or our online banking site. They will not want monthly statements.

3. What actions would you need to take to develop, produce and send a periodic statement disclosure with all of the proposed information? What would these actions cost? Which costs would be one-time costs and which would be ongoing costs?

We estimate that producing the statements monthly, stuffing them in envelopes, and mailing them would cost an estimated $1.00 per loan per month[1] While this may not seem great on the surface, when you multiply it by every loan and consider that proposals are pending to likely reduce servicing income on secondary market loans, it is clear that our margins will continue to shrink – and this does not account for increased vendor costs.

Indeed, these costs are minimal compared to what our increased vendor costs could be for establishing a statement system that does not exist today. However, it is difficult to determine vendor costs. Our vendors are almost as overwhelmed with the pace of regulatory change as we are; they are unwilling at this time to consider pre-proposal alternatives under consideration, and given our small size, we are powerless to get them to do so. We can only anticipate either a one-time assessment in the thousands of dollars, a significant increase in our contract rates at renewals, or some combination of both – the most likely scenario.

I also want to note that although model statement formats provided by the CFPB may be helpful, they are not expected to mitigate cost increases. It is the programming to place data in specific fields within any form that creates the expense, not designing the form itself. In addition, the form itself can increase our costs due to changes in formatting. For example, existing envelope stock we use currently to send notices may have to be discarded and new envelope stock may have to be purchased if the location of the address block on the statement does not fit within the existing address window. Similarly, please note that if we could no longer use payment passbooks, we would be forced to dispose of our stock of passbooks as well as many recently purchased passbook printers that each cost $500-$600, or more, and required considerable IT time to program and set up.

Finally, we estimate that we would need to spend an initial two to three hours training time for each loan department employee to ensure they can answer basic questions about the regulatory changes. Ongoing training would likely be around two hours per year for each staff member. Frontline staff would receive many additional and more detailed questions that they are not trained to answer currently. We estimate spending four hours annually with each frontline employee to ensure they can answer questions accurately. Adding time expended by Compliance and Training staff, we estimate our total training budget would increase by $5000 to $6000 per year.

4. What format do you store the information that would be provided in a periodic statement? What format do you store records of your periodic statements, if you already provide them? What actions would you need to take to store the information in a machine-readable form (not a PDF, but rather an electronic form in which the information contained in the disclosures could be analyzed automatically)? What would these actions cost?

Our core processor stores the data and produces the data in a text file format. I am unaware of any program or technology that would allow the storage of statement text files in a machine-readable format. However, based on research into the cost of document imaging (as a pdf), the cost is likely to be prohibitive for small institutions. In addition, the cost, which will ultimately be borne by the consumer, would not improve customer service. Whenever one of our loan customers contacts us with a question, I or a member of my staff can pull the loan file that is stored less than thirty steps down the hall.

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[1] If the Bureau determines that electronic delivery is acceptable, it must understand that a very small percentage of our customer base (30%) has accepted the electronic statement delivery for checking accounts. We believe that this is consistent with other banks that operate in rural areas across the country.

5. If you provide a periodic statement disclosure, what would your normal schedule be for the next update of the processes and systems through which you generate the disclosure?

Given the pace of regulatory change in the last several years, "updates" are neither regular nor timely. For example, we converted to our core processor in June of 2009. A scheduled update was planned for the fall of 2010. It was delayed due to various issues – primarily to roll out a number of regulatory changes in a coordinated manner – so the update was re-scheduled for August 2011. This update was scrapped at the last minute due to more regulatory changes. In February 2012, we finally received our update. Based on this experience, I believe that it could take up to 18-24 months for our core provider to update our system generate the new disclosure.

Given the inherent delays, we urge the Bureau to reconsider the inclusion of information about the name and address of consumer credit counseling services. In our rural market, we have seen consolidations and closures with these agencies, not to mention address and phone number changes. Providing this information on periodic statements would not only require compliance officer time and effort to ensure each monthly statement contains the correct consumer information, regular system updates would be required to keep agency information accurate. The Bureau should also note that the effectiveness of consumer counseling agencies in our market is diminished due to the fact that the nearest approved agency is over 60 miles away.

6. Do you provide borrowers with coupon books for making payments? To what fraction of borrowers do you provide coupon books?

As mentioned previously, we use passbooks for about 70% of our mortgage customers. Approximately 30% of the customers set up an automatic payment transfer and use online banking for tracking the payment details. We believe that payment passbooks are more beneficial to the consumer than coupon books because they show the actual imprinted payment and loan balance information as the transaction is processed. We believe we can provide more specific loan information on a payment passbook for all loan types, adjustable and fixed rate loans, than we could on a coupon book, and we urge the Bureau to include both passbooks (for both fixed rate and ARM loans) in any exemption from the requirement to provide periodic statements.

I urge the Bureau to consider the following alternatives for providing the required information:

1. Payment Passbooks could include (* Existing data in our passbooks):

    - Loan account number*
    - Loan maturity date,
    - Monthly payment amount and date due each month*
    - Current principal balance*
    - Current interest rate
    - Date of the next interest rate adjustment
    - The amount of any prepayment, if any, or statement that there is no prepayment penalty
    - A description of how late payments will be assessed, including late fee amounts
    - Contact information for the lender/servicer, including addresses and web site links for additional information*
    - Recent payment activity which includes a monthly breakdown of how each payment was applied to principal, interest, escrows, and late charges.*

2. Bank website Information, available 24 hours a day, could include:

- Contact information for the borrower to obtain information about the mortgage
- Contact information for housing counseling agencies or programs
- The servicer's policy with regard to additional payment application
- The servicer's policy with regard to partial payments
- Delinquent borrower information, foreclosure information, and loss mitigation alternatives that may be available.

3. Delinquency notices could include:
   - Instructions directing the borrower to the information located on the website as mentioned above.

Information about year-to-date payments of principal, interest, escrow, fees, and partial payments would not be able to be printed on a passbook. However, this information can be calculated easily from the payment history data imprinted on the passbook. In addition, this information could also be viewed through most online banking applications, and we could encourage borrowers to enroll in the online banking to view this information. Finally, small community banks do most of their servicing face-to-face with our customers during which we can provide them in-person all of this information on a moment's notice.

B. ADJUSTABLE RATE MORTGAGE STATEMENT

1. If you currently provide ARM interest rate adjustment disclosures, how much in advance of the first adjustment do you send the disclosure? Is the timeframe different for adjustments that are subsequent to the first?

Typically, the new rate is calculated 45 days prior to the rate change date. Change processing takes approximately 3 days, and then the notice is mailed. We provide the notice a minimum of 25 days, and typically 42 days, prior to the new interest rate becoming effective and 55-72 days prior to the due date of new payment. We follow this procedure for all adjustable rate loans and for all interest rate adjustments. Our bank averages 22 days from application to loan closing on our mortgage loans – thus, we allow plenty of time for borrowers to refinance, if necessary, prior to reset.

I urge the Bureau to consider the unintended consequences likely to flow from the proposed requirement to send a notice that provides a "good faith estimate, based on accepted industry standards, of the creditor or servicer of the amount of the monthly payment that will apply after the date of the adjustment or reset" (the Notice) six to seven months prior to the initial interest rate reset or adjustment of a hybrid adjustable rate mortgage.[2] First, I believe that providing the Notice six to seven months prior to the reset may confuse customers about when the new payment begins, and may, in some cases, result in unintended consumer delinquencies. It has been my experience that customers notified of payment amount adjustments frequently assume that the change is effective on the *next* payment date.[3] Thus, customers receiving the Notice may begin making the estimated payment the next month, and in the case of a reduced interest rate, customers may tender a partial payment, resulting in an unintended delinquency, late fees, and a credit score downgrade.

Second, a "good faith estimate" of the adjusted payment amount provided six to seven months before the

[2] *See* Dodd-Frank Act §1418.

[3] Every year after Security Savings bank mails the annual escrow analysis to customers, we have customers that immediately adjust their payment amount. This happens with such regularity that we alert our lenders to begin watching for incorrect payment amounts so that they can call the customer to alert them to the mistake before it is too late and a partial payment results in an unintended delinquency.

reset date may not reflect the actual payment amount in effect on the reset date, and yet it may invite false reliance. For example, in a rising rate environment, the Notice may show an estimated new payment that the customer can afford; however, if interest rates continue to increase during the six months between the Notice and the reset date, the customer could be subject to payment shock. Similarly, a Notice could cause the customer to refinance – and incur refinance fees – unnecessarily. For example, if the Notice shows that the interest rate may adjust upward, but before reset it falls again, customers relying on the initial Notice may refinance unnecessarily. In both scenarios, I have serious concerns about the negative impact on our customer relationship and even worry that the bank could be subject to legal liability.

To avoid these unintended consequences, I urge the Bureau to shorten the proposed Notice period. Under this approach, rather than a good faith *estimate* of the new payment, the Notice could set the actual new payment amount, in effect locking in the interest rate and payment amount. Although under this scenario both the bank and the consumer would forgo the possibility of further, possibly favorable, interest rate changes, both would also gain from the certainty provided. Consumers would benefit by having exact information about their payment reset well in advance of the change, and banks would avoid customer dissatisfaction and the threat of liability.

In addition, this alternative could be implemented with more limited system programming changes and expense than the good faith estimate being considered by the Bureau. Existing reset notices now provided can be revised and core processes can be adjusted to ensure that the notice is provided to the customer 60 days prior to reset. Note contracts can be adjusted relatively easily to reflect the exact payment/date reset. In contrast, to implement the Bureau's Notice will require significant, and expensive, programming changes. Core processing systems are generally designed to create the existing rate change notices when an "official" rate change takes place. It is my understanding that that intense rewriting of programming code will be required to in essence "trick" the system into producing a notice with an estimated rate change that does not drive an actual rate change. Effecting this change could cost lenders thousands of dollars and take at least 18 to 24 months to implement.

2. Take a look at the information that may be required on the proposed ARM reset notice. If you currently provide ARM reset notices, what information on the list do you not currently provide? Why not?

Our current notices provide all of the information required by Regulation Z, but do not contain the list of alternatives that consumers may pursue or contact information for counseling services.

3. What actions would you need to take to develop, produce and send an ARM reset notice with all of the proposed information? What would these actions cost? Which costs would be one-time costs and which would be ongoing costs?

We would likely incur a one-time, up-front cost to redesign our current notice to include the additional required information. Sometimes we can perform this redesign in-house, at a cost of two to four days of IT support for design and testing; however, to accommodate the proposed changes, our core processor may need to redesign their notice templates to allow for multiple pages per notice. In addition, as discussed above, the major cost would be in the intense programming code changes required to create an estimate that does not drive an actual rate change on the system. Making these changes could take 18-24 months to implement at a cost that would certainly be passed onto the bank from our core processor.

4. If you provide ARM reset notices, what is your normal schedule for the next update of the processes and systems through which you generate the disclosure?

There is no scheduled update planned by us or the core processor. Any changes would result in additional charges to our bank.

5. Some ARMs provide borrowers with years of fixed payments before an initial reset may occur. Others provide borrowers with only a short period of fixed payments before an initial reset may occur. In your experience, is the first interest rate reset generally more problematic for borrowers than subsequent resets?

We do not see any difference between the first reset and subsequent resets.

C. FORCED PLACE INSURANCE

1. Do you have any vender costs associated with force-placed insurance (*e.g.,* providing disclosures to borrowers, communicating with borrowers, monitoring the insurance coverage on properties in your portfolio, placing force-placed insurance). If so, which ones?

We incur costs associated with monitoring to ensure continuous insurance coverage; we employ one part-time staff member – at a cost of $15,000 per year – to do this monitoring for us. The proposals under consideration could have the effect of increasing our part-time staff member to full time, requiring an additional $15,000 per year in labor costs.

In our bank, monitoring is done manually by a part-time employee who thoroughly investigates the cause of the lapse in coverage and attempts to resolve, in person, the issues long before we get to a complete termination beyond the reinstatement period for coverage. We send reminders about premiums coming due and request that borrowers provide proof of insurance. In addition, we contact the insurer ourselves on behalf of the borrower to inquire as to the status, and there are only two cases where we are unable to resolve the issues before force placing insurance: if the home has become uninsurable or the insurer is no longer renewing policies in that market, or if the borrower does not have the available funds to pay the premium. (In that case, our bank usually initiates mitigation counseling and sets up escrows.)

We do not charge a fee for these services. However, the costs to track and document compliance with the mandatory process under consideration might require us to look for ways to offset the additional costs, probably by imposing reasonable fees. The assumption that forced place insurers will bear the added costs for disclosures, tracking insurance, and placing the insurance is incorrect. The added costs will either be borne banks, like ours, that perform all of these duties, or be passed on to consumers in the form of higher premiums.

3. What are your current practices with respect to notifying borrowers whose force-placed insurance policies are coming up for renewal? What costs would be imposed on you by a proposal that required you to provide written disclosures to borrowers prior to renewing their force-placed insurance policies?

First, the Bureau should understand that for some borrowers, we are forced to consistently force-place insurance. Every quarter, their insurance lapses despite our continuing efforts to contact these borrowers to remind them that having hazard insurance in place is a requirement of the loan. Often the lapse in coverage is due to their inability to obtain insurance coverage due to the structure's condition or location. Throughout the period that force placed insurance is in place, we continue to deliver reminder notices to the borrower to obtain their own insurance and notify us of such coverage. At each renewal period for the force placed insurance, which for us is monthly, we attempt contact the borrower to explain the disadvantages of force placed insurance. The increased costs we would incur as a result of this proposal are not just associated with preparing and delivering a notice. There will be additional labor costs to manage the process – to ensure that notices are delivered at the required intervals, to set up escrows for the force placed insurance premium, to refund premiums, and to repeat the process the next quarter when certain borrowers do not pay their premiums again. We estimate that our costs would increase by at least $15,000 annually with no corresponding benefit to consumers or bank safety and soundness.

4. What actions would you need to take to ensure that a force placed insurance disclosure with all of the proposed information is provided to borrowers? What would these actions cost you? Which costs would be one-time costs and which would be ongoing costs?

Because we use a Microsoft Word document to create these notices, we can easily change the notice format. We estimate that doing so would require approximately 8 hours of compliance time to ensure that our notice meets all regulatory requirements.

5. Do you (or your provider) currently refund premiums paid by homeowners for all periods in which hazard insurance is also in place?

Yes, but our existing procedures are to act proactively to ensure coverage does not lapse, so we rarely have overlapping policies.

D. PROMPT CREDITING AND REQUESTS FOR PAYOFF AMOUNTS

1. How do you currently handle partial payments from borrowers?

For portfolio loans, we accept partial payments and apply the partial payment as follows: interest is collected first, then principal, and finally fees. For secondary market loans, we require a full payment and alert the customer of that fact at the time they attempt to make a partial payment. We utilize a suspense account if necessary; however, our system requires manual intervention to apply the payment when the full amount has been paid. Please note that all of our secondary market loans are set up to have automatic payments made prior to the end of the grace period.

2. If you currently place partial payments in suspense accounts, when do you credit the borrower with a payment?

We credit the borrower only when we have a full payment amount and the payment is credited on the date the full payment is received. Accepting partial payments for loans sold to the secondary market would create significant accounting and reporting issues. While we appreciate concerns about partial payments not being credited to the loan, it should be understood that a partial payment does not eliminate late fees or reporting to credit bureaus if the borrower does not pay the remainder of the payment on time. Also, mortgage loans are scheduled interest calculations, not simple interest, so the crediting of a partial payment does not necessarily create an interest savings to the customer. Moreover, the alternative being considered that would allow a bank to return the partial payment to the consumer is not always the best answer; many customers ask us to hold the partial payment in a suspense account in order to ensure that the funds are not consumed by daily expenses.

Further, please note that in most community banks, including Security Savings Bank, a customer can walk in to any branch and obtain an accurate payoff statement within minutes. The proposal to require a bank to send an accurate payoff balance within seven days (excluding holidays and weekends) would negatively affect our ability to serve our customers and to close loans quickly. Community banks succeed by being efficient, often closing loans within 21 – 30 days of having a completed application. The allowance of seven days for a bank to provide an accurate payoff could delay the closing by up to 10 days.

E. ERROR RESOLUTION AND RESPONSE TO INQUIRIES

1. Take a look at the list of errors that the CFPB may propose. If a borrower contacts you in writing and claims that one of these errors has occurred, how do you currently respond? If a borrower contacts you orally, is your response different? Does your response depend on the type of loan the borrower has? What consumer matters or errors do you currently respond to that are not on the list?

2. Take a look at the time frames that the CFPB may propose for responding to alleged errors from consumers. Are there any alleged errors to which you do not currently respond in the stated time frames? If so, what actions would you need to take in order to respond within these time frames? What would those actions cost? Which costs would be one-time and which would be ongoing?

In the 14 years I have worked at Security Savings Bank, I have not received one written customer complaint about loan servicing. That does not mean that we do not have customers with complaints; however, typical customers of small banks simply come into the bank to discuss their concern in person or if time does not permit a trip to the bank, they use the phone. The key point is that we are available to discuss the issues, and ninety-nine percent of the concerns are resolved to the customer's satisfaction before he or she leaves the bank or hangs up the phone, not in writing five days later as proposed. We cannot stay in business without providing this level of service which is far superior to the level of service that the Bureau is attempting to mandate with the proposed error and inquiry resolution process.

Requiring community banks to establish the prescriptive error resolution process proposed by the Bureau would impose a burdensome compliance exercise without consumer benefit. We would have to establish a procedure just to ensure that we have provided a written response to the customer about issues *that have already been resolved on the spot.* This would require us to draft template notices of resolution; to create manual logs or tracking systems to document compliance with prescribed response times; and finally, to audit the process to ensure compliance. We estimate this will require approximately 24 hours of compliance staff time and at least 12 hours of staff training time—a one-time expense to the bank of at least $4000 to $6000. Ongoing costs would include about an hour of employee time per complaint just to document compliance with an (unnecessary) error resolution "process."

F. REASONABLE INFORMATION MANAGEMENT POLICIES AND PROCEDURES

1. Would you say that the way you currently manage information allows you to meet the duties stated in the policies and procedures?

2. If there are certain duties you cannot meet because of the way you currently manage information, what actions would you need to take in regards to how you manage information to meet these duties? What would these actions cost? Which costs would be one-time and which would be ongoing?

Current practices at our bank would satisfy the proposed requirements for information management policies and procedures. As previously discussed, we are proud of our track record for resolving servicing errors and loss mitigation. Documenting these practices as formal policies and procedures would add one-time costs for their development, compliance review, and board approvals. In addition, implementation would require initial training at a cost of approximately $2000 to $3000 and annual training at a cost of approximately $1000.

While we generally support the proposal for the development of information management policies and procedures that reflect the size of the servicer and the nature and scope of its activities, we continue to be very concerned that examiner opinions of what is “reasonable” can vary widely. It has been our experience that expectations for small community banks are far too often influenced by the policies and procedures put in place at larger institutions, a concern exacerbated by the fact that civil liability can arise for failure to establish a “reasonable” information management policy and procedure.

G. EARLY INTERVENTION FOR TROUBLED OR DELINQUENT BORROWERS

1. How long after delinquency do you currently attempt to contact borrowers? Would you ever wait longer than 45 days before attempting to contact the borrower? Why?

We are a strong supporter of early intervention for all delinquent loans. The first contact occurs within 2 days after the end of the grace period. Additional contact is made by phone if possible before a payment is 30 days late. Another notice is delivered within 2 days of becoming 30 days past due. Until the loan is current again, the customer receives written notices at the following intervals: 30, 60, 90, & 120 days late as well as phone contacts or certified letters for borrowers unavailable by phone. The 30 and 60 day notices include mandatory credit counseling and Servicemember Civil Relief Act disclosures to assist the debtor.

2. If your procedure is different from the proposed early intervention procedure, what actions would you need to take in order to comply with the proposed procedure? What would those actions cost? Which costs would be one-time and which would be ongoing?

The Bureau is considering requiring servicers to provide delinquent borrowers with written information about loss mitigation programs, requirements for qualifying and necessary documents, the foreclosure process, and housing counselors. This disclosure would have to be provided to the customer within 45 days of the date of delinquency and within five days of contact by a customer experiencing financial hardship. The proposal, like the proposed error resolution proposal, would impose a burdensome compliance exercise without consumer benefit. It would require the drafting of the notice, establishment of procedures to ensure timely delivery, and tracking systems to document compliance.

Community banks, like ours, service all loans equally and have the same early intervention procedures for both portfolio and secondary market loans. Indeed, given the complications of HAMP and HARP as well as the risk of loan re-purchase from the GSE, small servicers like Security Savings Bank concentrate more early intervention efforts on secondary market loans than on portfolio loans. As a result, since 2008, our bank has not had a single late payment on any loan sold to the secondary market.

Implementing this system just for non-portfolio loans will erode the small profit secondary market loans provide. Proposed mortgage loan compensation changes along with the added costs of additional disclosures may result in small banks exiting the mortgage market – thus doing more harm to the consumer. We recommend that the proposed additional information be posted on the bank website for 24 hour access and a simple link to this information be placed in late notices. This would decrease our compliance costs and would make it relatively easy to update and maintain accurate information, especially, housing counseling information that is ever changing.

3. The proposed procedure may require servicers to contact a delinquent borrower in writing. Would the costs of complying be substantially mitigated if you did not have to contact a delinquent borrower in writing if you originated the delinquent loan and held it in portfolio?

No, we would continue our current procedures – notifying customers by mail with notices and letters, and by phone when possible.

H. CONTINUITY OF CONTACT

1. How much staff do you currently provide to work with troubled borrowers? How do you provide access to this staff?

Our originating loan officers handle the collections for the loans they originated. They have full access to all loan documents and payment history and are best suited to provide necessary information and guidance to the delinquent borrower. Borrowers have ready access to their loan officer in person, by mail, email, telephone, and voice mail.

2. If you do not currently provide troubled borrowers with direct and ongoing access to staff (e.g., a dedicated phone number that is staffed during business hours), what actions would you have to take to do so? What would these actions cost?

I am unaware of any small community bank that does not provide direct and ongoing access.

3. Does the staff that works with troubled borrowers have ready access to the information described in the proposal? If not, what information is not readily available? What actions would you need to take in order to make sure that staff has access to this information? How much would these actions cost?

Yes, they have full access; the loan file is right down the hall.

CONCLUSION

Thank you again for the opportunity to provide small entity input on the proposed servicing rules. Please feel free to contact me at rmcelwee@securitysavings.com or 309-734-9333 ext. 2310 if you have any additional questions.

Respectfully submitted,

Randy D. McElwee

Randy D. McElwee
Vice President,
Commercial, Mortgage, & Consumer Lending Department

Cc. Jennifer Smith, SBA Office of Advocacy
Shagufta Ahmed, Policy Analyst, OIRA

ACCT #

Security Savings BANK

MORTGAGE LOAN PASSBOOK

Loan payments must be accompanied by the account number, loan passbook or loan bill.

Loan payments received in person or by mail on business days during hours of operation will be credited the same business day. All other payments delivered when the bank is closed will be credited on the next business day. Payments may be delivered to either address shown below.

Payment Amount $ 481.35 ___ Due Date: 1st

1st **Mortgage**

Security Savings Bank

220 East Broadway
PO Box 800
Monmouth, IL 61462
309-734-9333

www.securitysavings.com
BANKLINE — Bank by Phone
1-888-329-6559

Broadway at Nichols
PO Box 7
Stronghurst, IL 61480
309-924-1172

Customer
Name &
Address

Please present this book when making payments

Loan Number

	Date	Escrow Payments (Payouts)	Escrow Balance	Late Charges Assessed (Paid/Waive)	Interest	Principal	Loan Balance
1	03-01-11					61,600.00	61,600.00
2	03-01-11	827.60	1,844.56				
3	03-25-11				(243.83)	(19.52)	61,580.48
4	04-07-11	(1,102.00)	742.56				
5	04-08-11	205.32	947.88			(58.03)	61,522.45
6	04-22-11				(243.57)	(19.78)	61,502.67
7	04-27-11	731.87	1,679.75				
8	04-27-11	300.00	1,979.75				
9	05-03-11	(767.52)	1,212.23				
10	05-03-11	(48.78)	1,163.45				
11	05-05-11	11.28	1,174.73				
12	05-06-11	216.60	1,391.33			(58.03)	61,444.64
13	05-16-11			16.07			
14	05-17-11			(16.07)			
15	05-20-11				(243.24)	(31.39)	61,413.25
16	06-03-11	227.88	1,619.21			(46.75)	61,366.50
17	06-17-11				(242.88)	(31.75)	61,334.75
18	07-01-11	227.88	1,847.09			(46.75)	61,288.00
19	07-29-11				(242.54)	(32.09)	61,255.91
20	08-02-11	(767.52)	1,079.57				
21	08-02-11	(48.78)	1,030.79				
22	08-12-11	227.88	1,258.67			(46.75)	61,209.16
23	08-26-11				(242.35)	(32.28)	61,176.88
24	09-09-11	227.88	1,486.55			(46.75)	61,130.13
25	09-23-11				(242.01)	(32.62)	61,097.51
26	10-07-11	227.88	1,714.43			(46.75)	61,050.76
27	10-21-11				(241.66)	(32.97)	61,017.79
28	11-04-11	227.88	1,942.31			(46.75)	60,971.04
29	11-18-11				(241.31)	(33.32)	60,937.72
30	12-02-11	227.88	2,170.19			(46.75)	60,890.97
31	12-09-11	(13.79)	2,156.40				
32	12-30-11				(240.98)	(33.65)	60,857.32
33	01-13-12	227.88	2,384.28			(46.75)	60,810.57
34	01-27-12				(240.79)	(33.84)	60,776.73
35	02-10-12	227.88	2,612.16			(46.75)	60,729.98
36	02-22-12	(1,034.00)	1,578.16				
37	02-24-12				(240.42)	(34.21)	60,695.77
38	03-09-12	227.88	1,806.04			(46.75)	60,649.02
39	03-23-12				(240.09)	(34.54)	60,614.48
40	04-06-12	227.88	2,033.92			(46.75)	60,567.73
41	04-20-12				(239.74)	(34.89)	60,532.84

Ross, Rachel (CFPB)

From: Victor Petroni <VPetroni@firstnewengland.org>
Sent: Tuesday, May 01, 2012 4:43 PM
To: Ross, Rachel (CFPB)
Subject: RE: Reminder - Mortgage Servicing SBREFA Comments
Attachments: image001.gif; image002.jpg

Rachel,

I had hoped to put something together for the panel on the mortgage servicing issues, especially to address my concern for small credit unions and the impact that the mortgage servicing rules will have on their servicing of closed end second lien mortgages.

As usual I ran out of time (typical problem for small bank & credit union staff) I guess that I will have to use the comment period once the proposed rules as published to try and address the issue.

Thank you for the opportunity to participate. I enjoyed meeting the CFPB team and my fellow panel participants. If I can ever be of any further assistance please do not hesitate to call upon me.

Victor

Victor H. Petroni
SVP Lending, First New England FCU
President, Mortgage Markets CUSO, LLC
616 Burnside Avenue
East Hartford, CT 06108
860-282-0001, ext. 106
vpetroni@firstnewengland.org<mailto:vpetroni@firstnewengland.org>
[cid:image001.gif@01CD27B9.78FCF850]
[cid:image002.jpg@01CD27B9.78FCF850]

From: Rachel.Ross@cfpb.gov [mailto:Rachel.Ross@cfpb.gov]
Sent: Tuesday, May 01, 2012 1:21 PM
To: Victor Petroni
Subject: Reminder - Mortgage Servicing SBREFA Comments

Dear Mr. Petroni ,
Thank you for taking the time to participate in our panel meeting last week. As a reminder, to the extent you have any; comments are due by close of business today.

Sincerely,
Rachel
Rachel Ross
Research, Markets & Regulations
rachel.ross@cfpb.gov <mailto:rachel.ross@cfpb.gov>

Tel: 202 435-7635 | Mob:
202 591-6915
consumerfinance.gov

-----Original Message-----
From: Kevin Kanouff [mailto:KevinKanouff@statebridgecompany.com]
Sent: Wednesday, May 02, 2012 9:03 AM
To: Ross, Rachel (CFPB)
Subject: RE: Reminder - Mortgage Servicing SBREFA Comments

Thank you for the reminder Rachel. Unfortunately, we were unable to secure the data from our providers in time. Kevin

4600 S. Syracuse Street
Suite 700
Denver, Colorado 80237
T: (720) 931-6200
kevin@statebridgecompany.com<mailto:kkanouff@statebridgecompany.com>

[SB Logo RGB 72dpi]

From: Rachel.Ross@cfpb.gov [mailto:Rachel.Ross@cfpb.gov]
Sent: Tuesday, May 01, 2012 11:21 AM
To: Kevin Kanouff
Subject: Reminder - Mortgage Servicing SBREFA Comments

Dear Mr. Kanouff,
Thank you for taking the time to participate in our panel meeting last week. As a reminder, to the extent you have any; comments are due by close of business today.

Sincerely,
Rachel
Rachel Ross
Research, Markets & Regulations
rachel.ross@cfpb.gov <mailto:rachel.ross@cfpb.gov>
Tel: 202 435-7635 | Mob: 202 591-6915
consumerfinance.gov

<u>Appendix B</u>

List of Materials Shared with SERs

Materials Circulated in Advance of Panel Outreach Meeting:

- Outline of Proposals under Consideration and Alternatives Considered
- Discussion Issues for Small Entity Representatives
- Fact Sheet: Small Business Review Panel Process

Panel Outreach Meeting Materials:

- PowerPoint slides

Appendix C

Outline of Proposals Under Consideration and Alternatives Considered

[See attached]

SMALL BUSINESS REVIEW PANEL FOR MORTGAGE SERVICING RULEMAKING

OUTLINE OF PROPOSALS UNDER CONSIDERATION AND ALTERNATIVES CONSIDERED

I. INTRODUCTION

- Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, approved July 21, 2010) ("Dodd-Frank Act," "DFA," or the "Act")[1] in the wake of the greatest financial crisis since the Great Depression. At the epicenter of this crisis was the mortgage meltdown. The serious and widespread deficiencies in the mortgage market damaged American homeowners, financial institutions, and the wider economy.

- Mortgage servicing in particular has been marked by pervasive and profound consumer protection problems.[2] In examinations of fourteen major servicers, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision concluded that servicers were "emphasiz[ing] speed and cost efficiency over quality and accuracy" in their foreclosure processes.[3]

- The Dodd-Frank Act mandates several protections for homeowners in the servicing of their loans, including:

    (1) new disclosures (periodic statements, notice prior to reset of adjustable rate mortgages ("ARMs"), and force-placed insurance notices) that will help provide consumers with comprehensive and comprehensible information, when they need it, in a form they can use, so they can better manage their obligations and avoid unnecessary problems;
    (2) new requirements for servicers to respond in a timely way to homeowners who complain to their servicer about a potential mistake, and for responses that tell the homeowner how the complaint was resolved and why;
    (3) prompt crediting of payments, so consumers are not wrongly penalized with late fees or other fees because a servicer did not credit their payments quickly; and
    (4) timely response to requests for payoff information, so consumers can get their balance information when they need it.

- These new statutory requirements will take effect automatically in January 2013, as

[1] Dodd-Frank Act, secs. 1418, 1420, 1463(a), and 1464(a) (http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf). *See* Attachment A.
[2] *See e.g.*, Testimony of John Walsh, Acting Comptroller of the Currency, before the U.S. Senate Committee on Banking, Housing and Urban Affairs at p. 16 (February 17, 2011; *United States of America et al. v. Bank of America Corporation et al*., Compl. ¶¶ 47-101 (D.C. Cir.), available at: www.nationalmortgagesettlement.com.
[3] Federal Reserve System, Office of the Comptroller of the Currency, and Office of Thrift Supervision, "Interagency Review of Foreclosure Policies and Practices," p. 5, (April 2011), http://www.occ.gov/news-issuances/news-releases/2011/nr-occ-2011-47a.pdf.

written in the statute, unless final rules are issued first. The statute authorizes the CFPB to adopt implementing regulations and, by doing so, extend the effective date. The Bureau intends to use these authorities to adopt regulations that provide servicers with clarity about their statutory obligations and permit servicers sufficient time to come into compliance. The Bureau will also consider adjusting servicers' statutory obligations to ease burden where consistent with adequate protection of homeowners.

- The CFPB is also considering whether to propose additional standards to improve the way servicers treat homeowners in distress. Servicers, in particular the larger ones, can make it very difficult for distressed homeowners to explore and take advantage of potential ways to avoid a foreclosure. For example, servicers have frequently neglected to reach out or respond to a distressed homeowner in time, lost documents of homeowners who have sought modifications or other relief, failed to track communications with homeowners, and forced homeowners who have invested substantial time communicating with an employee of the servicer to "start over" with a different employee.[4]

- To address these concerns, the CFPB is considering proposing new servicing operations standards in three areas:

    (1) servicers would have to maintain reasonable information management policies and procedures,
    (2) servicers would have to intervene early with troubled and delinquent borrowers, and
    (3) servicers would have to assure that staff who deal with homeowners have access to records about that homeowner, including records of the homeowner's previous communications with the servicer.

- The Bureau recognizes that a one-size-fits-all approach may not be optimal with regard to either the mandated or additional requirements. In convening a Small Business Review Panel, the CFPB seeks input to help it determine to what extent it may be appropriate to consider adjusting these standards for small servicers, to the extent the statute allows adjustments. This document provides the small servicers that will consult with the panel, and the broader public, details about the proposals under consideration. These details will help servicers provide the CFPB useful feedback before the CFPB proposes a regulation. The CFPB is particularly interested in learning whether adjustments may be called for in the case of small servicers that originate loans for their customers and self-service those loans either while held in portfolio or after selling the loans (servicing retained) to Government-Sponsored Enterprises ("GSEs") or other investors. The CFPB seeks to understand how consumers would be protected in those cases where adjustments may be appropriate.

- Consistent with SBREFA, this summary provides a preliminary assessment of the

[4] *See e.g.* Larry Cordell, Karen Dynan, Andreas Lehnert, Nellie Liang and Eileen Mauskopf, "The Incentives of Mortgage Servicers: Myths and Realities," Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Working Paper 2008-46, at p. 9 (2008).

potential benefits and costs to the types of small businesses and other small entities that would be subject to the proposals under consideration—namely, mortgage servicers (such as community banks, credit unions, independent servicers, small non-profit organizations and possibly small government jurisdictions). Without making an official data request, the CFPB states that it welcomes any quantitative information Small Entity Representatives may choose to provide with regard to the costs and benefits of the rules the CFPB is considering proposing. Drawing in part on information gained through the SBREFA panel process, the CFPB will publish with the proposed rule an analysis of the benefits and costs to consumers and industry and of the impacts on small entities specifically. Comments received during the notice and comment period after the publication of the proposed rule will further inform the CFPB during the rulemaking process

II. <u>STATEMENT OF OBJECTIVES AND LEGAL BASIS</u>

- The Dodd-Frank Act imposes certain requirements concerning mortgage servicing that become self-executing and enforceable on January 21, 2013, unless final rules are issued on or before that date. Final rules must take effect no later than 12 months after the date of issuance (*i.e.*, not later than January 21, 2014). The CFPB plans to implement the mandatory statutory provisions by proposing amendments to Regulation Z and Regulation X, which implement TILA and RESPA respectively.

- DFA TILA Amendments

  - Section 1418: ARM notice provided 6 months prior to the initial reset of the interest rate for closed-end credit transactions secured by a consumer's principal residence. This rulemaking also would amend the timeframe and content of the periodic ARM adjustment notices required under current regulations.[5]

  - Section 1420: Periodic statement provided each billing cycle for closed-end credit transactions secured by a dwelling, except not required for fixed rate loans with coupon books containing substantially the same information.

  - Section 1464: Prompt crediting of mortgage payments in connection with consumer credit transactions secured by a consumer's principal dwelling and accurate response to requests for payoff amounts for home loans.

- DFA RESPA Amendments

  - Section 1463 requires the following for federally related mortgages:

    - Two notices must be sent to borrowers with lapsing or lapsed hazard insurance policies alerting them to the servicer obtaining force-placed insurance policies and setting forth requirements and procedures servicers

[5] *See* TILA's Regulation Z 1026.20(c) (formerly 226.20(c)).

must follow before charging consumers for such coverage. Servicers must terminate such coverage and reimburse borrowers for premiums charged during any period of overlapping coverage.

- Timely response to borrowers' requests to correct certain types of errors and to respond to borrowers' inquiries.
- Responding within ten business days to a borrower's request for the identity, address, and other relevant contact information about the owner or assignee of the loan.
- A prohibition on charging fees for responding to valid qualified written requests.
- Servicers must "comply with any other obligation found by the [CFPB], by regulation, to be appropriate to carry out the consumer protection purposes of this Act." In light of the systemic problems identified in the servicing industry, the CFPB believes it may be appropriate to exercise this authority by amending Regulation X to mandate processes and services intended to prevent avoidable foreclosures. To this end, the CFPB is considering proposing that servicers:
  - Establish reasonable policies and procedures for managing borrower information,
  - Undertake early intervention with troubled and delinquent borrowers, and
  - Provide troubled and delinquent borrowers with continuity of contact with staff equipped to assist them.

III. OUTLINE OF PROPOSALS UNDER CONSIDERATION

A. Mortgage Servicing Disclosures[6]

- The Dodd-Frank Act requires the following new disclosures: a periodic statement, notices prior to charging for any force-placed insurance, and a notice prior to the first reset of

[6]The CFPB is accumulating information about the one-time and ongoing costs of new disclosures for small entities, but the CFPB does not currently have information that is clearly applicable to the disclosures in this rulemaking. Small Entity Representatives recently provided the Bureau with information about the cost of integrating the Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA) mortgage loan origination forms. However, the integrated TILA/RESPA form is distinctive in both the amount of information that is both required from and provided to consumers. The costs of software, training, and fees (including attorney fees) associated with developing and providing the TILA/RESPA form may not be directly applicable to the simpler disclosures in this rulemaking. The CFPB is therefore asking Small Entity Representatives for information about the one-time and ongoing costs for developing and providing the new disclosures in this rulemaking.

hybrid adjustable rate mortgages. The new disclosure requirements will take effect with or without a Bureau regulation. The Bureau believes a regulation will aid consumers and servicers by clarifying legal rights and obligations and specifying disclosure requirements based on empirical testing.

- The CFPB is conducting outreach to both industry and consumer groups regarding DFA's mortgage servicing disclosure amendments, including small business servicers. In addition, between February 13 - 23, 2012, the CFPB posted a draft model periodic statement on its website for general comment.

- The CFPB is considering proposing a model form for the periodic statement, ARM reset notices, and force-placed insurance notices. Generally, model forms benefit servicers by providing them with safe harbors for complying with disclosure obligations, while preserving flexibility for servicers to vary from the model so long as they adhere to the regulation. With regard to the periodic statement and the ARM notices, the CFPB is considering a proposal that would require them to contain certain items and to group some of those items together for clarity and emphasis, but would permit servicers and creditors to customize the form in other respects.

- Through one-on-one interviews with consumers, the CFPB is testing the optimal amount, content, and presentation of information to include in each of the disclosures. The CFPB has conducted three rounds of testing in three different parts of the country.[7] A fourth round of testing may take place after the proposal is issued. The selection of testing locations took into account geographic, economic, and size diversity as well as diversity of consumer demographics, such as age, race, and mortgage experience. The CFPB will publish a report summarizing the results of the cognitive interviews, along with publication of its proposed mortgage servicing rules.

(1) Periodic Statement

- DFA Section 1420 amends TILA by adding a new requirement that a creditor, assignee, or servicer of any residential mortgage loan – a closed-end credit transaction secured by a dwelling -- provide a periodic statement to the borrower for each billing cycle.

- Required Content: According to the statute, the statement may be provided electronically and must include:

    - the amount of the principal obligation,

    - the current interest rate in effect,

    - the date on which the interest rate may next reset,

[7]The first round of testing took place in Towson, Maryland on February 1-2, 2012. The second round took place in Memphis, Tennessee on February 29 and March 1, 2012. The third round took place in the Los Angeles, California area on April 3-4, 2012. *See* Attachments B, C, and D for prototypes tested to date.

  - the amount of any prepayment fee to be charged,
  - a description of any late payment fees,[8]
  - contact information for the borrower to obtain information about the mortgage,
  - contact information for housing counseling agencies or programs approved/certified by the Secretary of Housing and Urban Development ("HUD") or a State housing finance authority, and
  - such other information as the CFPB may prescribe.

- Additional Content: The required content does not include the billing information servicers generally provide to borrowers but instead consists of general loan information and other information that may be helpful to troubled borrowers. The CFPB is considering proposing an integrated periodic statement that includes both types of information as well as how to dispute and resolve errors. The CFPB is considering proposing the following additional content in the periodic statement:

  - Loan account number and property address;
  - Servicer name and address;
  - Amount and due date of next payment;
  - Amount of, and date after which, any late fees will be assessed;
  - Loan maturity date;
  - Recent transaction activity, including itemization of fees and charges;
  - Breakdown of current, most recent, and year-to-date payments by principal, interest, escrow, fees, and partial payment;
  - The servicer's policy with regard to application of any additional payment received from the borrower;
  - The servicer's policy with regard to partial payments received from the borrower;
  - Amortization information for Payment Option loans; and
  - Delinquent borrower alerts, such as foreclosure warning, a summary of the delinquency history, and information about loss mitigation alternatives.

[8] The CFPB understands "prepayment fee" to mean pre-payment penalty.

- Timing: In keeping with current industry practice, the CFPB is considering proposing that the servicer send the periodic statement no later than four days after the end of the late fee grace period.

- Scope:

  - Exemptions:

    - Coupon Book for Fixed Rate Residential Mortgages: The periodic statement requirement exempts fixed rate residential mortgage loans where the borrower is given a coupon book with substantially the same information as required by the periodic statement. The CFPB is considering proposing different methods of presenting the DFA required and additional content in light of the constraints inherent in the coupon book format, such as size and the inability to provide updated information for each billing cycle. The CFPB is considering seeking comment on (1) whether certain dynamic information (such as payments received, breakdown of payments, and results of late or delinquent payments) could be made available through a website or voice-response unit (or left off entirely in the case of certain information not statutorily mandated) and (2) the circumstances under which the exemption should cease to apply, such as when the borrower becomes delinquent.

    - Reverse Mortgages: The CFPB is considering exempting reverse mortgages from the periodic statement requirement. Reverse mortgages are unique and better off addressed separately at an appropriate time.

- Consumer Testing: The CFPB is testing a model periodic statement in the field. The first round of testing focused on a statement for borrowers current in their mortgage payments; the second and third rounds emphasize distressed borrowers and those with Payment Option loans.[9] *See* n.7 regarding dates and locations of consumer testing.

- Potential Impacts on Small Entities

  The CFPB is not yet aware of any data or reports on how common it is for small servicers to provide borrowers with periodic statements. For servicers that do provide periodic statements, the CFPB does not yet have information on how much of the proposed content is already included in the statements. A question to the SERs asks about current practices in providing periodic statements and the content of those statements.

  Benefits

[9] *See* Attachment B-1 for the draft periodic statement tested in the first round. *See* Attachment B-2 for the draft periodic statement tested in the second round. *See* Attachment B-3 for a draft periodic statement tested in the third round.

- Providing the proposed content on a regular basis to both current and delinquent borrowers may reduce the frequency with which borrowers contact the servicer for information and reduce the time servicers spend answering borrower questions.

Costs

- The proposed periodic statement disclosure may require some servicers or their vendors to develop a new form or to reformat an existing form. These are one-time costs. The CFPB is mitigating the one-time costs by providing servicers with a tested form. A question to the SERS asks about the costs of developing a statement with the required content.

- Producing the proposed statement, which includes calculations specific to each loan, may require servicers or their vendors to acquire new or updated software, provide training to staff, use additional staff time, and incur paper, printing, and other production costs. Routine systems updates may mitigate the software costs since improved software would, in part, already be budgeted. The possibility of producing only electronic statements for certain borrowers, consistent with the E-SIGN Act, may mitigate the paper and printing costs. A question to the SERs asks about the one-time and ongoing costs of producing the proposed statement.

- The CFPB is considering the optimal form of record keeping for periodic statements and the financial information contained within them. In connection with another project focusing on integration of mortgage loan origination disclosures required under the Truth in Lending Act and Real Estate Settlement Procedures Act, the CFPB learned through another small business review panel that many participants retained PDFs or similar electronic archives of disclosures but did not maintain them in a machine readable form in which the information contained in the disclosures could be analyzed automatically. The participants believed that it might be expensive to change the record-keeping format. The CFPB believes that much or all of the financial data contained on a periodic statement is likely being maintained electronically by servicers as part of their ongoing accounting systems. A question to the SERs asks about existing record-keeping formats and the potential costs of different alternatives.

- Sending the proposed periodic statement disclosure may impose new mailing and other costs on servicers or vendors. The possibility of sending only electronic statements for certain borrowers may mitigate the mailing costs. A question to the SERs asks about the ongoing costs associated with sending the disclosure.

- The ongoing costs of the proposed periodic statement disclosure may be mitigated to some extent by the exemption for fixed rate residential mortgage loans where the borrower is given a coupon book with substantially the same information as required by the periodic statement. A question to the SERs asks about the provision of coupon books to borrowers.

(2) **ARM – Notice 6 Months Prior to Initial Interest Rate Reset**

- DFA Section 1418 amends TILA by adding a new requirement that a creditor or servicer provide a notice regarding the initial interest rate reset or adjustment of a hybrid adjustable rate mortgage at the end of the introductory period either (a) between 6 and 7 months prior to such reset, or (b) at consummation of the mortgage if the first reset occurs during the first 6 months after consummation. The notice must be separate and distinct from all other correspondence. Additional discretionary authority in the statute permits the CFPB to require creditors or servicers to provide the hybrid ARM notice or other notice for adjustable rate mortgages that are not hybrid ARMs.

- Required Content: According to the statute, the notice must include:

  - Any index or formula used in adjusting or resetting the interest rate and a source of information about the index or formula;

  - An explanation of how the new rate and payment would be determined, including how the index may be adjusted, such as by the addition of a margin;

  - A good faith estimate, based on accepted industry standards, of the amount of the resulting monthly payment after the adjustment or reset and the assumptions on which the estimate is based;

  - A list of alternatives that the consumers may pursue, including refinancing, renegotiation of loan terms, payment forbearance, and pre-foreclosure sales, and descriptions of actions the consumer must take to pursue these alternatives;[10]

  - Contact information for HUD- or State housing agency- approved housing counselors or programs reasonably available; and

  - Contact information for the State housing finance authority for the State where the consumer resides.

  Except for the contact information and list of alternatives, all of DFA 1418's required content is currently required by existing regulations.[11]

- Additional Content: The CFPB is considering proposing to include the following loan information in the disclosure: account number and property address; servicer name and

[10]Based on results from consumer testing, the proposal under consideration would substitute "loan modification" for "renegotiation of loan terms." The CFPB is also considering adding "deed in lieu" as an alternative, expressed simply as "transfer of ownership to the lender."

[11] The first two disclosures under Section 1418's required content are the same as those required under Regulation Z 226.19(b) (now 1026.19(b)), which must be provided to consumers around the time of application. The third disclosure currently must be provided to consumers 25-120 days prior to the due date of any payment change caused by an interest rate adjustment. *See* Regulation Z 1026.20(c) (1), (2), and (3). (That same regulation requires a similar notice sent annually to consumers if no interest rate adjustment during that time period effected a change in payment.) Note that Regulation Z applies to all ARMs (not just hybrid ARMs).

address; key terms of the ARM such as length of the introductory period and when future interest rate adjustments will take place; and date of upcoming interest rate adjustment and due date of the first payment after the adjustment. The CFPB is also considering including, if applicable, the amount and expiration date of any pre-payment penalty, any interest rate or payment limits, and amortization information for negatively amortizing and Interest-Only loans. (Much of this additional content was proposed by the Federal Reserve Board in its 2009 proposed rule to amend Regulation Z's ARM reset notice.)

- Scope: The statute defines a "hybrid adjustable rate mortgage" as a consumer credit transaction secured by the consumer's principal residence with a fixed interest rate for an introductory period that adjusts or resets to a variable interest rate after such period.

  - The CFPB understands the statutory definition of hybrid ARM to encompass the following loan products: 2/1, 3/1, 5/1, 7/1, and 10/1[12] (or any ARM product with an introductory period of longer duration than its ensuing periods of adjustment). This is consistent with how the banking industry refers to hybrid ARMs. The CFPB is considering proposing that these loan products receive the notice under DFA 1418.

  - The CFPB is considering proposing to use its discretionary authority to require this notice for ARMS that are not hybrid (1/1, 3/3, 5/5, etc.).[13] It is considering soliciting comments on whether this disclosure will be helpful to borrowers with these ARMs.

  - Regulation Z 1026.20(c) requires creditors to send disclosures for *all* ARMs prior to *each* interest rate adjustment that effects a change in payment. The CFPB is considering proposing changes to the timeframe and content of these current disclosures.[14] It is also considering proposing this disclosure as a notice separate from the periodic statement, but may propose allowing servicers to decide this issue. Note that the new rule would apply to servicers and assignees as well as creditors.

    - With regard to changing the timeframe, Regulation Z currently requires that notice be given 25 to 120 days prior to the date on which the adjusted payment is due and annually, without a change in payment. The CFPB is considering proposing that the revised notices under Regulation Z 1026.20(c) must be provided with every interest rate adjustment two to four months before payment at the new level is due (remaining annually, where there is no change in payment).[15] It is also considering soliciting

[12]A 3/1 hybrid ARM, for example, maintains a fixed rate of interest for the three-year introductory period and then converts to an adjustable rate for successive one-year periods. Hybrid ARM includes the once-popular 2/28 and 3/27 mortgages, which often adjusts every six months after the introductory period.
[13]ARMs, unlike hybrid ARMs, *start* with an adjustable rate and that rate readjusts at even intervals.
[14]Authority for this may be found in DFA 1420 (periodic statement), allowing the CFPB to require periodic disclosure of "[s]uch other information as the Board may prescribed in regulations." DFA §§ 1405, 1032 and TILA §105(a) may also provide bases for authority.
[15]Under this timeframe, similar to the Section 1418 notice, the servicer likely will have to provide an estimate of the

comments regarding the timing of the notice itself and in relation to the timing of the Section 1418 initial reset notice.

- The CFPB is considering proposing content for the revised 1026.20(c) notices that is identical to or that closely tracks the content it is considering proposing for the Dodd-Frank Act ARM initial reset notices (which, in turn, closely tracks the content of the Board's 2009 proposed rule). The CFPB is considering proposing that this recurring notice not include the contact information for counselors and the state housing finance authority since each periodic statement will include the counselor information. The CFPB is also considering soliciting comments on whether to include the Section 1418 list of alternatives. Finally, the CFPB is considering proposing to eliminate the 1026.20(c) notice for initial resets of any ARM because borrowers will receive the earlier Section 1418 notice for those resets.

- Consumer Testing: In order to assure the effectiveness of the DFA 1418 disclosure, the CFPB is conducting three rounds of consumer testing prior to issuing its proposal. With its testing contractor, the CFPB is working to determine the optimal content and format of information in the notice. The CFPB does not anticipate issuing a highly prescriptive format, but to require the content and the grouping of certain items together to maximize clarity.[16] *See* n.7 regarding dates and locations of consumer testing.

- Potential Impacts on Small Entities

  The CFPB is not yet aware of any data or reports that describe when small servicers generally provide the initial reset ARM disclosure or how much of the proposed content is already included in the disclosure. A question to the SERs asks about current practices in providing initial reset ARM disclosures and the content of those disclosures.

  Benefits
  - Servicers benefit when distressed borrowers contact them well in advance of a possible jump in interest rate and payment; this allows them more time to work together constructively. Borrowers with correct information about loss mitigation alternatives and the availability of housing counseling may be more likely to work quickly and constructively with their servicers.

  - Better disclosures about the new rate and payment may benefit servicers by reducing the need for borrowers to contact the servicer.

new interest rate and payment, rather than exact figures. The consumer will be provided with the exact figures in the first periodic statement sent out after the interest rate adjustment goes into effect.

[16] *See* Attachment C-1 for the model ARM reset notice tested in Round 1 of testing. *See* Attachment C-2 for the model ARM reset notice tested in Round 2 of testing. *See* Attachment C-3 for the model ARM reset notice tested in Round 3 of testing.

- The CFPB may modify the content and timing of the Regulation Z 1026.20(c) notice, which is given prior to each interest rate adjustment that effects a change in payment. The proposed notice would provide more information to the borrower. The proposed changes in timeframe, from 25 to 120 days to two to four months before payment at a new level is due, would give borrowers more time to make any necessary adjustments in household budgeting. Servicers benefit to the extent that these households are less likely to need forbearance plans or other loss mitigation work.

Costs

- The proposed initial reset ARM disclosure may require some servicers or their vendors to develop a new form or to reformat an existing form. These are one-time costs. The CFPB is mitigating the one-time costs by providing servicers with a tested model form. A question to the SERS asks about the costs of developing a form with the required content.

- Producing the proposed initial reset ARM disclosure for a particular borrower, which includes calculations specific to each loan, may require servicers or their vendors to acquire new or updated software, provide training to staff, allocate additional staff time, and incur other costs. Routine systems updates may mitigate the software costs since improved software would, in part, already be budgeted. A question to the SERs asks about the one-time and ongoing costs of producing the proposed form.

- Sending the proposed initial reset ARM disclosure may impose new mailing and other costs on servicers or vendors. The CFPB may mitigate these costs by no longer requiring the Regulation Z 1026.20(c) notice for the initial reset. A question to the SERs asks about the ongoing costs associated with sending the proposed initial reset ARM disclosure.

- The proposed modifications to the Regulation Z 1026.20(c) notice raise similar issues to those stated above. A question to the SERs asks about the one-time costs of developing a new 1026.20(c) form and the ongoing costs of providing any new information in the form.

Alternatives Considered:

The CFPB has also considered proposing limiting the initial reset notice to hybrid ARMs -- and not requiring it for all ARMs. However, the Bureau opted for its currently considered proposal because all ARMs, not just hybrid ARMs, are subject to the same “payment shock” after the introductory period expires, and because Congress expressly authorized the CFPB to extend the Section 1418 (or other) notice to ARMs that are not hybrid.

(3) Force-Placed Insurance

- DFA Section 1463 amends RESPA to prohibit a servicer of a federally related mortgage from obtaining force-placed hazard insurance unless there is a reasonable basis to believe the borrower has failed to comply with the loan contract's requirements to maintain property insurance. The CFPB is considering proposing examples to illustrate reasonable bases.

- Required Processes under DFA: The statute sets forth a mandatory process servicers must follow before imposing any charge on a borrower for force-placed insurance and for terminating force-placed insurance upon receipt from the borrower of evidence confirming borrower-purchased hazard insurance coverage:

  - Before charging a borrower for force-placed insurance,[17] a servicer must:

    - Send, via first-class mail, up to two notices to the borrower:
      - If the servicer has not received from the borrower any demonstration of insurance coverage 30 days after sending the first notice, the servicer must mail a second notice to the borrower.

      - No charge may be imposed until 15 days after the servicer has sent the second notice.

    - Accept any reasonable form of written confirmation from the borrower, including the borrower's existing insurance policy number along with the identity of, and contact information for, the insurance company or agency – or any other method required by the CFPB. The CFPB is considering proposing examples to illustrate what constitutes a sufficient demonstration of coverage by the consumer.

  - Termination of force-placed insurance and refunding of costs. Within 15 days of a servicer's receipt of confirmation of a borrower's existing coverage, whenever that occurs, the servicer must terminate the force-placed insurance and refund any premiums applicable to any period during which the borrower had coverage. The CFPB is considering a proposal that would track the statute with regard to termination and refunds.

- Required Content under DFA: The two notices must contain the following information:

  - A reminder of the borrower's contractual obligation to maintain hazard insurance on the secured property,

  - A statement that the servicer does not have evidence of borrower's existing coverage,

[17] Note that the servicer may force place insurance during any actual or apparent lapse in coverage; it may not charge the borrower for this service until after the 45-day waiting period and only for any period of actual lapse in the borrower's hazard insurance coverage.

  - A clear and conspicuous statement of how the borrower may demonstrate existing coverage, and
  - A statement that the servicer may obtain coverage at the borrower's expense if the borrower fails to provide such demonstration to the servicer in a timely manner.

- Additional Content: The CFPB is considering proposing the following additional information to alert consumers to the possible disadvantages of force-placed insurance and to give a general timeframe for when such policies may be imposed.

  - A good faith estimate of the force-placed insurance premium that the borrower may be charged,
  - A statement that force-placed insurance may not provide as much coverage and may cost significantly more than a hazard insurance policy purchased by the borrower, and
  - A statement of whether the servicer has placed or plans on force placing insurance.

- Force-Placed Insurance Notice Form: The CFPB is conducting three rounds of consumer testing prior to issuing its proposal. With its testing contractor, the CFPB will determine the optimal content and presentation of information in the notices. The CFPB anticipates issuing two sets of model forms.[18] The first set will reflect the case where the servicer already has obtained force-placed insurance and the second set will reflect the case where the servicer plans on force-placing insurance.

- Charges Related to Force-Placed Insurance: The statute provides that all charges -- apart from charges subject to State regulation as the business of insurance -- related to force-placed insurance imposed on the consumer by or through the servicer must be bona fide and reasonable. Through outreach, servicers have informed the Bureau that they typically do not charge consumers additional fees other than the force-placed insurance premium. The proposal would generally track the statute and provide that charges covered by the statute, to be bona fide and reasonable, must be for actual services rendered and not include any unearned fees to the servicer or any charges prohibited by applicable state law as rebates or inducements.

- Borrower's Pre-Existing Insurance Policy: Force-placed insurance is expensive relative to privately-obtained property insurance. The CFPB is considering clarifying that the term "force-placed insurance," and thus the rule, does not apply to servicers who, with express consent from the borrower -- including express consent to any fees or charges -- re-purchase a borrower's pre-existing policy.

- Payment of Insurance from Escrow: The CFPB is considering amending Regulation X, Section 1024.17(k)(1) and (2) by proposing that the servicer must make timely

[18] *See* Attachments D-1 and D-2(a) and (b) for prototypes tested to date.

disbursements from escrow funds to pay for a borrower's insurance premium even if the borrower is delinquent, absent cancellation of the policy by the borrower or the insurance company (for any reason other than non-payment of premiums). The servicer's continued payment through an escrow account for the borrower's existing policy would not constitute force-placed insurance. A question to the SERs asks about the impact that this amendment to the escrow disbursement rules would have on them.

- Amount of Coverage: The statute does not require that force-placed insurance cover in excess of the investor's collateral in the property; the CFPB is considering proposing that the servicer must inform the borrower that the force-placed coverage may not be as comprehensive as that provided under the consumer's own hazard insurance policy.

- Potential Impacts on Small Entities

  Benefits
  - The proposed force-placed insurance disclosures will make borrowers more aware of the pending placement of force-placed insurance so that they can better manage their obligation to maintain continuous coverage with hazard insurance. The disclosures may benefit servicers by reducing the frequency with which borrowers contact servicers to ask questions or to dispute or resolve fees and charges that could have been avoided if the borrower were more aware of the pending placement of force-placed insurance.

  - Comprehensive standards for managing force-placed insurance provide certainty to servicers with regard to their legal obligations.

  Costs
  - Based on discussions with industry, the CFPB understands that providers of force-placed insurance may not charge servicers, including small servicers, for providing disclosures to borrowers, tracking hazard insurance coverage, and placing the insurance. If this is correct, then force-placed insurance providers may also absorb the costs associated with the proposed disclosures and they will not impose any one-time or ongoing costs on small servicers. Questions to the SERs ask about vendor charges associated with force-placed insurance and the new costs they expect to incur to ensure that a force placed insurance disclosure with all of the proposed information is provided to borrowers.

  - The CFPB understands that providers of force-placed insurance generally refund force-placed insurance premiums paid by the borrower during periods in which the borrower's insurance coverage and the force-placed insurance coverage are both in effect. If this is correct, then the proposed provision requiring these refunds will not impose any one-time or ongoing costs on servicers. If this is not correct, then servicers may incur costs from the proposed provision, although the costs may be mitigated by the proposed disclosures notifying borrowers that the servicer needs written confirmation that coverage is in place. A question to the SERs asks about current practices for refunding force-placed insurance premiums.

- The amendment to the escrow disbursement rules, while potentially limiting the frequency with which servicers force place insurance, would require servicers to advance funds for maintaining pre-existing insurance for longer than the 30 days currently required by Regulation X. A question to the SERs asks about the impact that this change would have on them.

B. PROMPT CREDITING AND REQUESTS FOR PAYOFF AMOUNTS

- Under DFA Section 1464, servicers must credit consumer payments as of the date of receipt in connection with a consumer credit transaction secured by the consumer's principal dwelling, except if the delay does not result in any charge to the consumer or in the reporting of negative information to a consumer reporting agency. The servicer may, however, specify in writing requirements that the consumer must follow to make conforming payments. If non-conforming payments are accepted, the service must credit the payment five days after receipt.

- The prompt crediting provision generally codifies the current Regulation Z. The proposal would provide examples of the types of conforming payment requirements that are reasonable.

- Partial Payments: For payments received from borrowers that fall short of a complete payment, the CFPB is considering proposing retention of the current rule in Regulation Z requiring partial payments be treated in accordance with the legal obligation as determined by applicable state or other law. As such, servicers generally would be allowed to hold partial payments in a non-interest bearing suspense account until an amount equal to a full payment is received, in accordance with the contract or applicable state law. Servicers also would have the option of returning the non-conforming payment to the borrower. Additionally, the CFPB is considering proposing a new requirement that as soon as the amount in the suspense account equals a full contractual payment, the servicer must credit that payment to the earliest delinquent payment. A full contractual payment includes principal, interest, taxes, and insurance. The CFPB would seek comment on whether it should include other amounts, such as late fees and other servicer-imposed fees, in the full contractual payment. This proposal under consideration would have the effect of rolling forward the borrower's date of delinquency by 30 days.

- Payoff Request: The statute requires a creditor or servicer of a home loan to send an accurate payoff balance within a reasonable time, but no more than seven business days, after receipt of a written request for such balance from or on behalf of the borrower. Regulation Z currently addresses payoff amount requests, but creates a five business day safe harbor. The proposal generally would follow the statute and require an accurate payoff balance to be provided no later than seven days (excluding holidays and weekends) after receipt of a written request from the borrower. The CFPB is considering proposing that the term "home loan" be construed broadly but that it exclude reverse mortgages. The exclusion for reverse mortgages would be based on CFPB's belief that the unique features of reverse mortgages should be addressed together in a comprehensive rule focused exclusively on that product.

- Potential Impact on Small Entities

  Costs
  - The requirements to credit a payment once the suspense account contains the required amount and to apply the funds to the first delinquency may impose a cost on servicers who have different crediting practices. These servicers may lose some fee income and some float income, and they may need new or updated software to meet the new requirements. A question to the SERs asks about the extent to which servicers currently comply with the prompt crediting proposal and the cost of coming into compliance for servicers with different crediting practices.

Alternatives Considered:

The CFPB also has considered proposing an alternative approach that would require creditors and servicers to credit all partial payments, or those partial payments above a certain minimum threshold, to a borrower's account as they are received or else return the partial payment to the borrower. The CFPB identified certain possible drawbacks to this alternative approach including increased accounting costs for the servicer and, for the consumer, prolonging the length of delinquency and increasing the amount of the periodic payment.

C. Error Resolution and Response to Inquiries

- Current Error Resolution Procedures: Section 6 of RESPA and Regulation X contain procedures for handling alleged errors and inquiries. Section 6 of RESPA provides that when a servicer of a federally related mortgage loan receives a "qualified written request" from a borrower for information relating to the servicing of the borrower's loan, the servicer must respond within certain timeframes. Regulation X limits application of the qualified written request provisions to "mortgage servicing loans," which includes only first-lien, closed-end mortgages.

- DFA Amendments to Error Resolution and Inquiry Procedures:

  - Statutory Prohibitions: DFA Section 1463 amends Section 6 of RESPA by adopting a number of servicer prohibitions with respect to handling alleged errors and inquiries, including revising the timeframe to respond to qualified written requests. Among other things, DFA Section 1463 prohibits a servicer of a federally related mortgage from:

    - Charging fees for responding to valid qualified written requests, as defined by the CFPB;

    - Failing to respond within ten business days to a borrower's request for the identity and contact information for the owner or assignee of the loan; and

  - Failing to take timely action to respond to a borrower's request to correct errors relating to

    - allocation of payments,
    - final balances for purposes of paying off the loan,
    - avoiding foreclosure, or
    - other standard servicer's duties.

- <u>Other Requirements</u>: Section 1463 contains a provision that allows the CFPB to require servicers to comply with any other obligation it finds appropriate to carry out the consumer protection purposes of RESPA.

- <u>Tracking Statutory Language</u>: The CFPB is considering proposing tracking the statutory language with regard to:

  - Applying the error resolution and inquiry response procedures to "federally related mortgages," not just "mortgage servicing loans," as currently provided in Regulation X with regard to qualified written requests. Thus, residential mortgage loans, including first and second liens, would be subject to this rule.

  - Prohibiting servicers from charging fees for responding to valid qualified written requests.

  - Requiring servicers to respond within ten days (excluding weekends and holidays)[19] to a borrower's request for the identity and contact information for the owner or assignee of the loan. The CFPB is also considering proposing that contact information include an address and a telephone number.

- <u>Defining "Error":</u>

  - The CFPB is considering proposing a comprehensive set of requirements for investigating and correcting errors and for responding to borrower inquiries. This approach would incorporate, but not be limited to, RESPA's use of the qualified written request to address "servicing" issues, as defined by RESPA. Specifically, servicers would be required to correct errors relating to allocation of payments, final balances for purposes of paying off the loan, avoiding foreclosures, or other standard servicer's duties. Servicers also would be required to respond to inquiries about these topics.

  - In order to cover each of the areas for which servicers must correct errors, the CFPB is considering proposing to define "errors" with the following exclusive list:

[19]Hereinafter, "business days" means excluding weekend and holidays.

        - Computation errors (including with respect to calculating the interest rate and escrow account balance),
        - An incorrect allocation of payments,
        - The failure to credit payments in a timely manner,
        - The failure to make timely payments of taxes and insurance from an escrow account,
        - The refusal to accept a conforming payment,
        - The failure to provide an accurate final payoff amount,
        - The failure to provide accurate disclosures to borrowers,
        - The failure to provide accurate information to borrowers about home retention or loss mitigation options and the foreclosure process,
        - The failure to suspend foreclosure proceedings while the borrower is performing as agreed under a loss mitigation option or other alternative to foreclosure or otherwise meeting the borrower's obligations, and
        - The failure to provide the borrower with relevant document in response to an inquiry or following an investigation of an alleged error.
    - The CFPB is considering seeking comments on whether additional or different conduct should be treated as errors. It is also considering seeking comments on whether it should propose a catch-all category for errors related to the four areas described in the statute but that may not be captured by the list included in the proposed rule.
- <u>Error Resolution and Responding to Inquiries</u>: The CFPB is considering proposing a timeframe for error resolution and responding to inquiries that generally tracks the timeframe for qualified written requests, as amended by the DFA, subject to certain explicit exceptions. *See* Attachment E for a detailed description of these procedures. Briefly, under the error resolution procedures the CFPB is considering proposing (inquiry procedures are similar):
    - The borrower
        - can assert an error in writing (including electronically if the servicer provides a web site or similar means of submission specifically for handling complaints) or orally (by telephone); and

        - must provide information that enables servicers to identify the name and account, type of error the borrower believes has occurred, and when the servicer believes that error occurred.

    - The servicer

        - within five business days, must acknowledge receipt of the complaint in writing, whether a qualified written request or not -- unless resolved earlier and the servicer already sent written notification of resolution;

        - within 30 business days after a reasonable investigation, must provide the borrower with written notification of (1) correction of that or another error or (2) the servicer's conclusion that no error occurred;

        - must respond within shorter timeframes for errors relating to providing an accurate final payoff statement and errors related to suspending foreclosure proceedings while the borrower is performing under a trial or permanent modification;

        - may request supporting documentation from the borrower, but must investigate the error with or without such documentation;

        - within the 30 business days, may extend the investigation time period by 15 business days -- with notification and explanation to the borrower; and

        - within 15 business days of a borrower's request after the conclusion of an error investigation, must provide without charge the relevant documents used in that investigation.

- Exemptions:

    - HELOCs: The CFPB is considering proposing to exclude open-end lines of credit, such as HELOCs, from the error resolution and qualified written request provisions because these products are subject to distinct error resolution procedures under TILA and Regulation Z.

    - Routine Inquiries: The CFPB is considering proposing to exclude routine inquiries about the borrower's account, request for information for taxes or other recordkeeping purposes, and requests for duplicate copies of documents from the term "error."

- Potential Impact on Small Entities

  Benefits

    - The rule the CFPB is considering clarifies servicer duties for handling alleged errors and inquiries relating to the defined topics.

- By providing an exclusive list of errors that trigger the error resolution requirements, servicers can more effectively control the costs of investigating alleged errors and better allocate firm resources.

Costs

- The proposed error resolution and inquiry provisions require servicers to respond (a) to inquiries and requests that are not "qualified written requests," (b) regarding issues beyond those defined as "servicing" by RESPA, and (c) for loans that are not first-lien, closed-end mortgages. Small servicers may already comply with the proposed provisions, perhaps as part of good customer service. Servicers that are not in compliance may need new or updated software and hardware and they may need to devote additional staff time to error resolution and provide additional training to staff.

  The CFPB does not know the extent to which small servicers are already in compliance with the proposed provisions or the cost of coming into compliance. A question for the SERs asks about how servicers currently address the listed errors and whether the response depends on how the borrower communicates with the servicer and the type of loan the borrower has. Another question for the SERs asks about the actions required to address the listed errors within the proposed time frames and the one-time and ongoing costs of those actions.

<u>Alternatives Considered:</u>

The CFPB also has considered proposing an open-ended enumeration of errors related to the four areas identified in the statute, as opposed to creating an exclusive list of what constitutes an error. However, this alternative had several drawbacks. Without a clear definition of what constitutes an error, uncertain compliance standards may lead servicers to treat all claims they receive as errors, thereby limiting the time and attention spent investigating errors the CFPB has identified as key. Clear and definitive compliance standards reduce the costs and burdens for all servicers, but especially small servicers.

D. REASONABLE INFORMATION MANAGEMENT POLICIES AND PROCEDURES.

DFA Section 1463 requires servicers to comply with any obligation the CFPB finds appropriate to carry out the consumer protection purposes of the Act. The CFPB is considering proposing a rule to address wide-spread problems reported across the mortgage servicing industry with regard to management of borrower documents and information.[20] Reasonable policies and procedures for managing borrower documents and information would facilitate development of systems and operational processes for tracking and storing borrower documents and information with respect to borrower communications, error resolution, information requests, loss mitigation (including, without limitation, loan modification actions), foreclosure, and other servicer operations. Further, such reasonable policies and procedures would assure that servicers have access to records noting key actions taken with respect to borrower communications, error

[20] *See* pp. 1-2 above.

resolution, information requests, loss mitigation (including, without limitation, loan modification actions), foreclosure, borrower bankruptcy actions, and other relevant actions with respect to a borrower's account.

Under DFA Section 1463, the CFPB is considering proposing that servicers establish reasonable policies and procedures that:

- Provide accurate and timely disclosures and other information to borrowers;
- Minimize errors and facilitating prompt error correction;
- Maintain records of borrower contact, with a possible exception for some small servicers;
- Facilitate loss mitigation by
    - accepting, organizing, and managing documents and information submitted by or about borrowers in connection with loss mitigation requests,
    - ensuring reasonable and timely access to such documents and information by all appropriate loss mitigation personnel, and
    - identifying additional documents and information the borrower must provide to be considered for loss mitigation options and notifying the borrower promptly of such deficiencies.

The CFPB further envisions a servicing industry capable of achieving mortgage loan servicing transfers without negatively impacting loss mitigation communications with borrowers. Through reasonable policies and procedures, servicers should be capable of transferring all relevant and accurate documents and information to (1) a subsequent servicer when servicing rights are transferred in a form and manner that enables the subsequent servicer to comply with the requirements of this subpart and (2) a forum addressing foreclosure. Such documents and information would include, among other things, documents and information that reflect communications with borrowers, documents and information memorializing actions to correct account errors, documents and information that were received from borrowers with respect to consideration for loss mitigation options, and documents and information that set forth trial or permanent modification agreements.

The CFPB is considering proposing that the reasonableness of a servicer's information management policies and procedures would depend upon the size of the servicer and the nature and scope of its activities. Additionally, the CFPB is considering proposing to explain that a violation would occur if a servicer: (a) fails to establish reasonable information management policies and procedures or (b) demonstrates a pattern or practice of failing to comply with its procedures. However, an occasional failure to follow established policies and procedures would not constitute a violation of this part of the regulation. Note: potential civil liability arises from violation of the regulation.

- Potential Impacts on Small Entities

  Benefits

  - The proposed information management policies and procedures focus on desired outcomes and avoid prescription. A servicer's policies and procedures are reasonable if they facilitate important servicer duties like error correction and loss mitigation.

  - The proposed reasonable information management policies and procedures may benefit borrowers and servicers by clarifying the obligations on servicers for managing borrower information. Clearer obligations may protect servicers from legal liability.

  - In themselves, improved information management policies and procedures may reduce servicer time spent managing consumer information and documents and responding to consumer information requests and queries; enhance consumers' ability to understand and manage their mortgages; and reduce preventable delinquency and foreclosure.

  Costs

  - Servicers that maintain reasonable information management policies and procedures may incur a cost to review and document their policies and procedures, obtain legal advice, train their staff to follow the policies and procedures, and monitor staff adherence to the policies and procedures.

  - The proposal mitigates all of these costs for small servicers through the provision that the "reasonableness" of a servicer's policies and procedures would depend upon the size of the servicer and the nature and scope of its activities.

  - Depository institutions already are subject to interagency guidelines relating to safeguarding the institution's safety and soundness.[21] These guidelines provide that depository institutions should establish and maintain loan documentation practices that, among other things, ensure that any claim against a borrower is legally enforceable and that demonstrate appropriate administration and monitoring of a loan. These existing practices focus on desired outcomes that are related to those that the proposal specifies for mortgage servicing, and so these existing practices may facilitate reasonable information management for purposes of mortgage servicing. The proposed policies and procedures may therefore not impose a significant additional burden on depository institutions that are also small servicers.

  - A question to the SERs asks them to consider whether the way they currently manage information allows them to meet the duties stated in the policies and procedures. Another question asks about the costs of changing how they manage information in order meet those duties.

[21] *See* Inter agency Guidelines Establishing Standards for Safety and Soundness, 60 Fed. Reg. 35674 (July 10, 1995).

Alternatives Considered:

The CFPB also has considered proposing to prescribe specifically how servicers should manage borrower information. The CFPB believes, however, that articulating the objectives and allowing the servicer to choose the policies and procedures that meet the objective may better serve consumers.

E. EARLY INTERVENTION FOR TROUBLED OR DELINQUENT BORROWERS.

Under DFA Section 1463, the CFPB is considering proposing early intervention procedures for troubled and delinquent borrowers to address mortgage servicing problems experienced by such borrowers.[22] For this purpose, the CFPB is considering proposing a rule requiring servicers to make good faith efforts to contact delinquent borrowers no later than 45 days after the onset of delinquency and to respond promptly to troubled borrowers who contact their servicers.[23]

The proposal the CFPB is considering would require servicers to provide delinquent borrowers with written information, no later than 45 days after the date of delinquency, about (1) options to help avoid foreclosures, such as loss mitigation programs available to them and how to access a housing counselor, and (2) the foreclosure process, including:

- A brief description of any loss mitigation programs available to the borrower;
- A brief outline of the requirements for qualifying for any available loss mitigation programs, including documents and other information the borrower must provide, and any timelines that apply;
- A brief explanation of the foreclosure process and possible foreclosure timelines; and
- Contact information for housing counselors who may be able to assist the borrower.

The Bureau is also considering proposing to require that servicers provide this written information to any borrower who contacts the servicer about having or expecting to have difficulty making payments within five days of the borrower making such contact.

The CFPB is considering proposing an exemption from the written disclosure requirements for small servicers for loans they hold in portfolio if they make good faith efforts to contact borrowers no later than 45 days after they first become delinquent.

- Potential Impacts on Small Entities

  Benefits
  - The proposed early intervention procedure may benefit servicers who do not

[22]*See* pp. 1-2 above.
[23]The CFPB is considering permitting servicers, at their option, to initiate contact by telephone, mail, or other means generally used by the servicer to communicate with borrowers.

already perform the specified activities by improving the information they have about troubled borrowers, reducing servicer costs associated with loss mitigation, and reducing servicer costs associated with preventable foreclosure.

Costs

- Servicers generally make good faith efforts to contact delinquent borrowers, but servicers that do so by telephone may incur one-time and ongoing costs associated with providing written information to such borrowers. Questions to the SERs ask about the timing and methods of their current efforts to contact delinquent borrowers and the costs of any changes they would need to make to comply with the proposal.

F. CONTINUITY OF CONTACT

Also under Section 1463, the CFPB is considering proposing to require servicers to provide delinquent and troubled borrowers with specific servicer points of contact to address wide-spread problems reported with regard to inconsistent and faulty servicer contact with borrowers.[24] The proposed rule under consideration would require servicers to provide all borrowers who become 45 days delinquent or who request assistance in avoiding delinquency with direct and on-going access to a staff of the servicer's customer service employees dedicated to serving troubled or delinquent borrowers. The proposal would require that these employees have ready access to:

- a complete record of the borrower's payment history,
- a complete record of previous communications between the servicer and the borrower or any authorized third parties from the earlier of the date of delinquency or the date when the borrower first requested assistance,
- all borrower-submitted documentation,
- underwriters with the ability to evaluate the borrower for loss mitigation options and the authority to approve or recommend approval of loss mitigation options, and
- information on the status of any on-going or pending foreclosure actions.

The CFPB is considering proposing that a servicer does not violate the rule if ready access is temporarily unavailable as a result of computer systems issues, weather emergencies and similar force majeure events, or if records have been received too recently to be readily accessible to the customer service employees.

If the CFPB finds that certain classifications of small servicers already maintain consistent, albeit less formal, contact with their financially challenged clients, the CFPB may consider proposing adjustments to this rule for such servicers.

[24] *See* pp. 1-2 above.

- Potential Impact on Small Entities

  Benefits
  - The provision for streamlined access to underwriters for assessment for loss mitigation may reduce preventable delinquency and foreclosure and servicer costs associated with these activities.

  Costs
  - Servicers may incur additional information management costs associated with accessing the borrower's payment history and communications between the servicer and borrower. A question to the SERs asks about these additional information management costs.

  - Servicers may need to devote additional staff time to communicating with borrowers and provide additional training to staff in accessing and using borrower information. A question to the SERs asks about these additional staffing and training costs.

IV. OTHER FEDERAL RULES

- The Dodd-Frank Act codified certain requirements contained in existing regulations and in some cases imposed new requirements that expand or vary the scope of existing regulations. As discussed above, the CFPB is working to eliminate conflicts and to harmonize the earlier rules with the new statutory requirements.

- As discussed above, the content of certain current Regulation Z ARM disclosures issued before, around the time of, or after consummation of the mortgage replicate the content of the new DFA ARM notice provided to consumers six to seven months prior to the initial reset of their interest rates. The varied timing of these Regulation Z notices evidences their distinct purposes, despite any replication of content. Moreover, this reuse of the same content may reduce the burden on servicers since it reduces the need for the production of new materials and information. Also, the content of the DFA notice provided six to seven months prior to the initial reset of the ARM's interest rate that the CFPB is considering proposing will be the same or similar to the Regulation Z 1026.20(c) notice sent closer to the date of the reset or adjustment.

- As discussed above, Regulation Z contains a prompt crediting provision generally codified by DFA's prompt crediting provision.

- Regulation Z addresses the issue of partial payments. As discussed above, the Bureau is considering following the current rule in Regulation Z and permitting partial payments to be treated in accordance with the legal obligation as determined by applicable state or other law.

- As discussed above, Regulation Z currently addresses payoff amount requests, but creates a safe harbor of five business days. Additionally, the current regulation applies to loans secured by a consumer's principal dwelling. The proposal would follow the DFA and require an accurate payoff balance to be provided no later than seven business days (excluding weekends and holidays) after the receipt of a written request from the borrower. The proposal would also construe the term "home loan" broadly and seek comments on whether certain types of loans, such as reverse mortgages, should be excluded from coverage.

- As discussed above, Regulation Z rules governing open-ended credit may provide the basis for exemption of HELOCs from rules that the CFPB is considering proposing. Specifically, the CFPB is considering exempting HELOCs from the error resolution rule, as TILA and Regulation Z provides error resolution procedures for these loan products.

- As discussed above, RESPA's procedures for qualified written requests overlap with DFA's RESPA amendment providing additional procedures for resolving errors and responding to inquiries. The CFPB is considering proposing broader, more consumer-friendly procedures that cover wider topics than the current qualified written request, which it believes will have substantial benefit to borrowers.

- The CFPB is not aware of any other federal regulations that duplicate, overlap, or conflict with the proposals under consideration.

V. POTENTIAL IMPACT ON COST OF CREDIT TO SMALL ENTITIES

- Section 603(d) of the Regulatory Flexibility Act requires the CFPB to consult with small entities regarding the potential impact of the proposals under consideration on the cost of credit for small entities and related matters.[25]

- At this time, there is no evidence that the proposals under consideration would result in an increase in the cost of credit for small entities. The proposals under consideration would apply only to mortgage loans obtained by consumers primarily for personal, family, or household purposes. They would not apply to loans obtained primarily for business purposes.

- The CFPB, however, will seek the advice and recommendations of SER participants during the SBREFA outreach session regarding this issue.

[25] *See* 5 U.S.C. § 603(d).

ATTACHMENT A

Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA")
(Pub. L. 111-203, approved July 21, 2010)

DFA EXCERPTS ON MORTGAGE SERVICING

Truth in Lending Act ("TILA") (15 U.S.C. 1601 *et seq.*)Amendments

- **DFA Section 1418:** ARM Notice Prior to Initial Reset

(a) Hybrid adjustable rate mortgages defined

For purposes of this section, the term "hybrid adjustable rate mortgage" means a consumer credit transaction secured by the consumer's principal residence with a fixed interest rate for an introductory period that adjusts or resets to a variable interest rate after such period.

(b) Notice of reset and alternatives

During the 1-month period that ends 6 months before the date on which the interest rate in effect during the introductory period of a hybrid adjustable rate mortgage adjusts or resets to a variable interest rate or, in the case of such an adjustment or resetting that occurs within the first 6 months after consummation of such loan, at consummation, the creditor or servicer of such loan shall provide a written notice, separate and distinct from all other correspondence to the consumer, that includes the following:

(1) Any index or formula used in making adjustments to or resetting the interest rate and a source of information about the index or formula.

(2) An explanation of how the new interest rate and payment would be determined, including an explanation of how the index was adjusted, such as by the addition of a margin.

(3) A good faith estimate, based on accepted industry standards, of the creditor or servicer of the amount of the monthly payment that will apply after the date of the adjustment or reset, and the assumptions on which this estimate is based.

(4) A list of alternatives consumers may pursue before the date of adjustment or reset, and descriptions of the actions consumers must take to pursue these alternatives, including--

(A) refinancing;

(B) renegotiation of loan terms;

(C) payment forbearances; and

(D) pre-foreclosure sales.

(5) The names, addresses, telephone numbers, and Internet addresses of counseling agencies or programs reasonably available to the consumer that have been certified or approved and made publicly available by

the Secretary of Housing and Urban Development or a State housing finance authority (as defined in section 1301 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989).
(6) The address, telephone number, and Internet address for the State housing finance authority (as so defined) for the State in which the consumer resides.
(c) Savings clause
The Board may require the notice in paragraph (b) or other notice consistent with this Act for adjustable rate mortgage loans that are not hybrid adjustable rate mortgage loans.

- **DFA Section 1420:** Periodic Statement

(f) Periodic statements for residential mortgage loans
(1) In general
The creditor, assignee, or servicer with respect to any residential mortgage loan shall transmit to the obligor, for each billing cycle, a statement setting forth each of the following items, to the extent applicable, in a conspicuous and prominent manner:
(A) The amount of the principal obligation under the mortgage.
(B) The current interest rate in effect for the loan.
(C) The date on which the interest rate may next reset or adjust.
(D) The amount of any prepayment fee to be charged, if any.
(E) A description of any late payment fees.
(F) A telephone number and electronic mail address that may be used by the obligor to obtain information regarding the mortgage.
(G) The names, addresses, telephone numbers, and Internet addresses of counseling agencies or programs reasonably available to the consumer that have been certified or approved and made publicly available by the Secretary of Housing and Urban Development or a State housing finance authority (as defined in section 1301 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989).
(H) Such other information as the Board may prescribe in regulations.
(2) Development and use of standard form
The Board shall develop and prescribe a standard form for the disclosure required under this subsection, taking into account that the statements required may be transmitted in writing or electronically.
(3) Exception
Paragraph (1) shall not apply to any fixed rate residential mortgage loan where the creditor, assignee, or servicer provides the obligor with a coupon book that provides the obligor with substantially the same information as required in paragraph (1).

- **DFA Section 1464:** Prompt Crediting

(a) In general
In connection with a consumer credit transaction secured by a consumer's principal dwelling, no servicer shall fail to credit a payment to the consumer's loan account as of the date of receipt, except when a delay in crediting does not result in any charge to the consumer or in the reporting of negative information to a consumer reporting agency, except as required in subsection (b).
(b) Exception
If a servicer specifies in writing requirements for the consumer to follow in making payments, but accepts a payment that does not conform to the requirements, the servicer shall credit the payment as of 5 days after receipt.

- **DFA Section 1464:** Requests for Payoff Amounts

A creditor or servicer of a home loan shall send an accurate payoff balance within a reasonable time, but in no case more than 7 business days, after the receipt of a written request for such balance from or on behalf of the borrower.

Real Estate Settlement Procedures Act ("RESPA") (12 U.S.C. 2601-1617) Amendments

- **Section 1463:** Force-Placed Insurance Notices, Procedures for Error Resolution and Inquiries, and Catch-All Provision.

(k) Servicer prohibitions
1) In general
A servicer of a federally related mortgage shall not--
(A) obtain force-placed hazard insurance unless there is a reasonable basis to believe the borrower has failed to comply with the loan contract's requirements to maintain property insurance;
(B) charge fees for responding to valid qualified written requests (as defined in regulations which the Bureau of Consumer Financial Protection shall prescribe) under this section;
(C) fail to take timely action to respond to a borrower's requests to correct errors relating to allocation of payments, final balances for purposes of paying off the loan, or avoiding foreclosure, or other standard servicer's duties;
(D) fail to respond within 10 business days to a request from a borrower to provide the identity, address, and other relevant contact information about the owner or assignee of the loan; or

(E) fail to comply with any other obligation found by the Bureau of Consumer Financial Protection, by regulation, to be appropriate to carry out the consumer protection purposes of this Act.

(2) Force-placed insurance defined

For purposes of this subsection and subsections (l) and (m), the term "force-placed insurance" means hazard insurance coverage obtained by a servicer of a federally related mortgage when the borrower has failed to maintain or renew hazard insurance on such property as required of the borrower under the terms of the mortgage.

(l) Requirements for force-placed insurance

A servicer of a federally related mortgage shall not be construed as having a reasonable basis for obtaining force-placed insurance unless the requirements of this subsection have been met.

(1) Written notices to borrower

A servicer may not impose any charge on any borrower for force-placed insurance with respect to any property securing a federally related mortgage unless--

(A) the servicer has sent, by first-class mail, a written notice to the borrower containing--

(i) a reminder of the borrower's obligation to maintain hazard insurance on the property securing the federally related mortgage;

(ii) a statement that the servicer does not have evidence of insurance coverage of such property;

(iii) a clear and conspicuous statement of the procedures by which the borrower may demonstrate that the borrower already has insurance coverage; and

(iv) a statement that the servicer may obtain such coverage at the borrower's expense if the borrower does not provide such demonstration of the borrower's existing coverage in a timely manner;

(B) the servicer has sent, by first-class mail, a second written notice, at least 30 days after the mailing of the notice under subparagraph (A) that contains all the information described in each clause of such subparagraph; and

(C) the servicer has not received from the borrower any demonstration of hazard insurance coverage for the property securing the mortgage by the end of the 15-day period beginning on the date the notice under subparagraph (B) was sent by the servicer.

(2) Sufficiency of demonstration

A servicer of a federally related mortgage shall accept any reasonable form of written confirmation from a borrower of existing insurance coverage, which shall include the existing insurance policy number along with the identity of, and contact information for, the insurance company or agent, or as otherwise required by the Bureau of Consumer Financial Protection.

(3) Termination of force-placed insurance

Within 15 days of the receipt by a servicer of confirmation of a borrower's existing insurance coverage, the servicer shall--

(A) terminate the force-placed insurance; and

B) refund to the consumer all force-placed insurance premiums paid by the borrower during any period during which the borrower's insurance coverage and the force-placed insurance coverage were each in effect, and any related fees charged to the consumer's account with respect to the force-placed insurance during such period.

(4) Clarification with respect to Flood Disaster Protection Act

No provision of this section shall be construed as prohibiting a servicer from providing simultaneous or concurrent notice of a lack of flood insurance pursuant to section 102(e) of the Flood Disaster Protection Act of 1973.

(m) Limitations on force-placed insurance charges

All charges, apart from charges subject to State regulation as the business of insurance, related to force-placed insurance imposed on the borrower by or through the servicer shall be bona fide and reasonable.

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ATTACHMENT B-1

Periodic Statement
Tested in Towson, Maryland
February 1-2, 2012

Springside Mortgage

Mortgage Statement
Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Bethesda, MD 20814

Account Number	1234567
Payment Due Date	4/1/2012
Amount Due	**$1,829.71**
If payment is received after 4/15/12, pay $1,989.71	

Account Information	
Property Address	4700 Oak Ridge Ln Bethesda, MD 20814
Remaining Loan Balance	$264,776.43
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty	$35,000.00

Current Payment Due	
Principal	$386.46
Interest	$1,048.07
Escrow (for Taxes and Insurance)	$235.18
Regular Monthly Payment	**$1,669.71**
Total Fees Charged	$160.00
Total Amount Due	**$1,829.71**

Contact Us	
By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com
See back for mailing addresses	

Transaction Activity

Date	Description	Charges	Payments
3/16/12	Late Fee (charged because payment was received after 3/15/2012)	$160.00	
3/17/12	Payment Received – Thank you		$1,669.71

Past Payments Breakdown

	Paid Last Month	Paid Year to Date
Principal	$384.93	$1,150.25
Interest	$1,049.60	$3,153.34
Escrow (Taxes and Insurance)	$235.18	$705.54
Fees	$0.00	$0.00
Partial Payment (Unapplied)	$0.00	$0.00
Total	**$1,669.71**	**$5,009.13**

Important Messages

If You Are Experiencing Financial Difficulty: If you would like mortgage counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. On the back of this page, we have also provided contact information for three state- or federally-approved counseling programs in your area.

We are pleased to have you as a Springside Mortgage customer. We are known throughout the country for the quality of our service and our dedication to providing financial security for our customers. We will do everything we can to make you feel at home, and to ensure you receive the friendly, professional service you deserve.

Springside Mortgage

Springside Mortgage
8100 Market Ave
Bethesda, MD 20814

Amount Due		
Due By 4/1/2012:		$1,829.71
If received after 4/15/2012:		*$1,989.71*
Please designate how you want us to apply any additional funds.		
Additional Principal	$	.
Additional Escrow	$	.
Other Charges (specify):	$	.

Payment Options

Springside Mortgage provides you the following options for making your mortgage loan payments.

- **Mail:** P.O. Box 11111, Baltimore, MD 21264
- **Online***: www.springsidemortgage.com
- **Pay-by-phone****: 1-800-123-4567
- **Automatic Deduction:** Enroll at www.springsidemortgage.com
- **In Person:** At any Springside Mortgage branch

*Select "My Mortgage Info" from the "Online Services Menu."
** A fee may apply for this service.

Online Services

Springside Mortgage offers a variety of online services to help you better manage your mortgage loans including:

- Payments
- Electronic Statements
- "Notify me" alerts for payments received or escrow disbursements

You can also view your loan payment history, amortization schedule, principal balance, interest rate and escrow account activity Simply visit www.springsidemortgage.com and select "My Mortgage Info" from the online services menu. For further assistance please contact us at 1-800-678-4567.

Payment Information

- **Additional Amount:** Please designate how you want additional funds to be applied; we will apply them as directed provided your account is current. If your account is current, undesignated funds will be applied per the terms of your mortgage loan documents. Regardless of the account status, principal prepayments will only be applied to your account if your contract allows for prepayments.
- **Please be prompt**. Payments must reach Springside Mortgage by the due date. **Your payment is credited on the day it is received at our payment center, not the day it is postmarked.** Payments made at a Springside Mortgage branch prior to the change of the business day will be credited the same day. Payments are not accepted at Springside Mortgage origination offices.
- If you are in bankruptcy or received a bankruptcy discharge of debt, this communication is not an attempt to collect a debt against you personally, but strictly for informational purposes only.
- **Notice of Negative Information**: We may report information about your account to the Credit Bureaus. Late payment, missed payments, other defaults, or bankruptcy filing on your account may be reflected in your credit report.

Mortgage Counseling and Assistance

If you would like counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. Below is contact information for the housing finance authority in your state and for three state- or federally-approved counseling programs in your area.

- **Maryland Department of Housing and Community Development**
  100 Community Place
  Crownsville, MD 21032
  410-514-7000 or 1-800-756-0119
  www.mdhousing.org
- **Consumer Credit Counseling Services of Maryland and Delaware, Inc.**
  757 Frederick Rd
  Baltimore, MD 21228
  1-866-731-8486
  www.cccs-inc.org
- **St. Ambrose Housing Aid Center, Inc.**
  321 E. 25th St
  Baltimore, MD 21218
  410-366-8550 x235
  www.stambros.org
- **Housing Initiative Partnership, Inc.**
  6525 Belcrest Road, Suite 555
  Hyattsville, MD 20782
  301-699-3835
  www.hiphomes.org

Automated Account Information

Account information is easy to access through Springside Mortgage's Automated Phone Service by calling 877-555-9988 or 1-800-555-2222. Please have your loan number and the first five (5) digits of your Social Security Number to access this convenient service. Automated information is available Monday-Sunday 7:00 a.m to 11:00 p.m., Eastern Time.

Consumer Complaints and Inquiries

- You can direct any complaints and inquiries to Springside Mortgage by referencing the "Contact Us" section on the first page of this statement.
- You have the right to file complaints about Springside Mortgage with your state banking department.

Service Fee Schedule (Unless Limited by State Law)*

Amortization Schedule: $25.00
Account History (per year): $10.00
Duplicate 1098/Escrow Analysis: $10.00
Verification of Mortgage: $20.00
Document Copies (per request): $20.00
Subsequent Payoff Statement: Varies
Automated Payment by Phone: $15.00
Fax Fee: Varies
Returned Check Fee: Varies
*May be subject to change

Important Springside Mortgage Contact Information

Payments:
P.O. Box 11111
Baltimore, MD 21264
Correspondence Address:
P.O. Box 12111
Buffalo, NY 14240
Fax Numbers:
Fax payoff requests: 1-866-221-2222
Fax all other Customer Service requests: 1-866-555-5555
Overnight Mail:
1 Fountain Plaza
Buffalo, NY 14203
Questions about Insurance:
P.O. Box 32309
Springfield, OH 45501
Questions about Tax:
P.O. Box 209433
Fort Worth, TX 76161

Homeowners Insurance/Property Tax Information

- **Insurance Requirements:** The terms of your loan require that you maintain homeowners insurance coverage not less than the replacement value of your property. We suggest that you consult your insurance company to determine these coverage amounts. Flood Insurance is required for all properties located in a Special Flood Hazard Area as designated by FEMA.
- **Policy Information:** To protect our mutual interests, the mortgage clause of your policy must include the following: Springside Mortgage, its Successors and/or Assigns, Mortgage Loan #____, P.O. Box 392, Springfield, OH 20932. If you pay your own insurance, please ensure that you provide us with your current insurance information by visiting our website at www.mycoverageinfo.com. You may also mail or fax a copy of the declaration page to our office (Fax # 1-877-495-4455).
- **Damaged Property:** In the event of damage to your home, notify your insurance agent. After the claim has been filed, please contact us at 1-888-555-3434 so that we may guide you through this process.
- **Loans with Tax Escrow:** If your property taxes are paid from an escrow account with us and you receive a tax bill, please forward the bill immediately to the following address: Springside Mortgage, P.O. Box 30944, Fort Worth, TX 39393. Please be sure to write your loan number on the bill. It is no longer necessary to forward paid tax receipts on non-escrow accounts. For property-related tax questions please call 1-877-555-4444.

ATTACHMENT B-2

Periodic Statement
Tested in Memphis, Tennessee
February 29 – March 1, 2012

Springside Mortgage

Mortgage Statement
Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Account Number	**1234567**
Payment Due Date	**4/1/2012**
Amount Due	**$2,849.42**

If payment is received after 4/15/12, $160 late fee will be charged.

Account Information	
Property Address	4700 Oak Ridge Ln Memphis, TN 38109
Outstanding Principal	$264,776.43
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty	$3,500.00

Explanation of Amount Due	
Principal	$386.46
Interest	$1,048.07
Escrow (for Taxes and Insurance)	$235.18
Regular Monthly Payment	**$1,669.71**
Total Fees Charged	$410.00
Overdue Payment	$769.71
Total Amount Due	**$2,849.42**

Contact Us	
By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com
See back for mailing addresses	

Transaction Activity (2/20 to 3/19)

Date	Description	Charges	Payments
3/13/12	Partial Payment Received		$900.00
3/16/12	Late Fee (charged because full payment not received by 3/15/2012)	$160.00	
3/19/12	Property Inspection Fee	$250.00	

Past Payments Breakdown

	Paid Last Month	Paid Year to Date
Principal	$0.00	$765.32
Interest	$0.00	$2,103.74
Escrow (Taxes and Insurance)	$0.00	$470.36
Fees	$0.00	$0.00
Partial Payment (Unapplied)	$900.00	$900.00
Total	**$900.00**	**$4,239.42**

Important Messages

If You Are Experiencing Financial Difficulty: If you would like mortgage counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. On the back of this page, we have also provided contact information for three state- or federally-approved counseling programs in your area.

We are pleased to have you as a Springside Mortgage customer. We are known throughout the country for the quality of our service and our dedication to providing financial security for our customers. We will do everything we can to make you feel at home, and to ensure you receive the friendly, professional service you deserve.

Springside Mortgage

Springside Mortgage
P.O. Box 11111
Memphis, TN 38101

Amount Due		
Due By 4/1/2012:		**$2,849.42**
$160 late fee will be charged after 4/15/12		
Please designate how you want us to apply any additional funds.		
Additional Principal	$	.
Additional Escrow	$	.
Total Amount Enclosed	**$**	.

Payment Options

Springside Mortgage provides you the following options for making your mortgage loan payments.

- **Mail:** P.O. Box 11111, Memphis, TN 38101
- **Online***: www.springsidemortgage.com
- **Pay-by-phone****: 1-800-123-4567
- **Automatic Deduction:** Enroll at www.springsidemortgage.com
- **In Person:** At any Springside Mortgage branch

*Select "My Mortgage Info" from the "Online Services Menu."
** A fee may apply for this service.

Online Services

Springside Mortgage offers a variety of online services to help you better manage your mortgage loans including:

- Payments
- Electronic Statements
- "Notify me" alerts for payments received or escrow disbursements

You can also view your loan payment history, amortization schedule, principal balance, interest rate and escrow account activity Simply visit www.springsidemortgage.com and select "My Mortgage Info" from the online services menu. For further assistance please contact us at 1-800-678-4567.

Payment Information

- **Additional Amount:** Please designate how you want additional funds to be applied; we will apply them as directed provided your account is current. If your account is current, undesignated funds will be applied per the terms of your mortgage loan documents. Regardless of the account status, principal prepayments will only be applied to your account if your contract allows for prepayments.
- **Please be prompt**. Payments must reach Springside Mortgage by the due date. **Your payment is credited on the day it is received at our payment center, not the day it is postmarked.** Payments made at a Springside Mortgage branch prior to the change of the business day will be credited the same day. Payments are not accepted at Springside Mortgage origination offices.
- If you are in bankruptcy or received a bankruptcy discharge of debt, this communication is not an attempt to collect a debt against you personally, but strictly for informational purposes only.
- **Notice of Negative Information**: We may report information about your account to the Credit Bureaus. Late payment, missed payments, other defaults, or bankruptcy filing on your account may be reflected in your credit report.

Mortgage Counseling and Assistance

If you would like counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. Below is contact information for the housing finance authority in your state and for three state- or federally-approved counseling programs in your area.

- **Tennessee Housing Development Agency**
  404 James Robertson Pkwy, Ste 1200
  Nashville, TN 37243-0900
  615-815-2200 or 1-800-228-THDA
  www.thda.org
- **Financial Counselors of America**
  3294 Poplar Ave, Ste 304
  Memphis, TN 38111
  901-722-5000 or 1-877-450-4404
  www.financialcounselors.org
- **Memphis Consumer Credit Education Association**
  1661 Aaron Brenner Dr, Ste 201
  Memphis, TN 38120
  901-321-6800
  www.mccea.net
- **Memphis Housing Resource Center**
  2400 Poplar Ave, Ste 220
  Memphis, TN 38112
  901-529-1151
  www.mhrc.info

Automated Account Information

Account information is easy to access through Springside Mortgage's Automated Phone Service by calling 877-555-9988 or 1-800-555-2222. Please have your loan number and the first five (5) digits of your Social Security Number to access this convenient service. Automated information is available Monday-Sunday 7:00 a.m. to 11:00 p.m., Eastern Time.

Consumer Complaints and Inquiries

- You can direct any complaints and inquiries to Springside Mortgage by referencing the "Contact Us" section on the first page of this statement.
- You have the right to file complaints about Springside Mortgage with your state banking department.

Service Fee Schedule (Unless Limited by State Law)*

Amortization Schedule: $25.00
Account History (per year): $10.00
Duplicate 1098/Escrow Analysis: $10.00
Verification of Mortgage: $20.00
Document Copies (per request): $20.00
Subsequent Payoff Statement: Varies
Automated Payment by Phone: $15.00
Fax Fee: Varies
Returned Check Fee: Varies
*May be subject to change

Important Springside Mortgage Contact Information

Payments:
P.O. Box 11111
Memphis, TN 38101
Correspondence Address:
P.O. Box 12111
Buffalo, NY 14240
Fax Numbers:
Fax payoff requests: 1-866-221-2222
Fax all other Customer Service requests: 1-866-555-5555
Overnight Mail:
1 Fountain Plaza
Buffalo, NY 14203
Questions about Insurance:
P.O. Box 32309
Springfield, OH 45501
Questions about Tax:
P.O. Box 209433
Fort Worth, TX 76161

Homeowners Insurance/Property Tax Information

- **Insurance Requirements:** The terms of your loan require that you maintain homeowners insurance coverage not less than the replacement value of your property. We suggest that you consult your insurance company to determine these coverage amounts. Flood Insurance is required for all properties located in a Special Flood Hazard Area as designated by FEMA.
- **Policy Information:** To protect our mutual interests, the mortgage clause of your policy must include the following: Springside Mortgage, its Successors and/or Assigns, Mortgage Loan #____, P.O. Box 392, Springfield, OH 20932. If you pay your own insurance, please ensure that you provide us with your current insurance information by visiting our website at www.mycoverageinfo.com. You may also mail or fax a copy of the declaration page to our office (Fax # 1-877-495-4455).
- **Damaged Property:** In the event of damage to your home, notify your insurance agent. After the claim has been filed, please contact us at 1-888-555-3434 so that we may guide you through this process.
- **Loans with Tax Escrow:** If your property taxes are paid from an escrow account with us and you receive a tax bill, please forward the bill immediately to the following address: Springside Mortgage, P.O. Box 30944, Fort Worth, TX 39393. Please be sure to write your loan number on the bill. It is no longer necessary to forward paid tax receipts on non-escrow accounts. For property-related tax questions please call 1-877-555-4444.

ATTACHMENT B-3

Periodic Statement – Delinquent Borrower
Tested in Los Angeles, California
April 3-4, 2012

Springside Mortgage

Mortgage Statement
Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Account Number	**1234567**
Payment Due Date	**4/1/2012**
Amount Due	**$4,339.13**

If payment is received after 4/15/12, $160 late fee will be charged.

Account Information

Property Address	4700 Oak Ridge Ln Los Angeles, CA 90010
Outstanding Principal	$264,776.43
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty	$3,500.00

Explanation of Amount Due

Principal	$386.46
Interest	$1,048.07
Escrow	$235.18
Regular Monthly Payment	**$1,669.71**
Total Fees and Charges	$410.00
Overdue Payment	$2,259.42
Total Amount Due	**$4,339.13**

Contact Us

By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com

See back for mailing addresses

Delinquency Notice

You are late on your mortgage payments. Failure to bring your loan current may result in fees and foreclosure—the loss of your home. As of March 20, you are 49 days delinquent on your mortgage loan.

Recent Account History

- Payment due 12/1/11: Fully paid on time
- Payment due 1/1/12: Fully paid on 2/3/12
- Payment due 2/1/12: Unpaid balance of $589.71
- Payment due 3/1/12: Unpaid balance of $2,079.71
- Current payment due 4/1/12: $1,669.71
- **Total: $4,339.13 due. You must pay this amount to bring your loan current.**

Transaction Activity (2/20 to 3/19)

Date	Description	Charges	Payments
3/13/12	Partial Payment Received*		$1,000.00
3/16/12	Late Fee (charged because full payment not received by 3/15/2012)	$160.00	
3/19/12	Property Inspection Fee	$250.00	

Important Messages

Partial Payments: Any partial payments that you make are not applied to your mortgage, but instead are held in a separate suspense account. If you pay the balance of a partial payment, the funds will then be applied to your mortgage.

Past Payments Breakdown

	Paid Last Month	Paid Year to Date
Principal	$0.00	$383.31
Interest	$0.00	$1,051.22
Escrow	$0.00	$235.18
Fees	$0.00	$410.00
Partial Payment (Unapplied)*	$1,000.00	$1,490.00
Total	**$1,000.00**	**$3,569.71**

Springside Mortgage

Springside Mortgage
P.O. Box 11111
Los Angeles, CA 90010

Amount Due	
Due By 4/1/2012:	**$4,339.13**
$160 late fee will be charged after 4/15/12	
Please designate how you want us to apply any additional funds.	
Additional Principal	$.
Additional Escrow	$.
Total Amount Enclosed	**$.**

1234567 34571892 342359127 DN

Payment Options

Springside Mortgage provides you the following options for making your mortgage loan payments.

- **Mail:** P.O. Box 11111, Los Angeles, CA 90010
- **Online*:** www.springsidemortgage.com
- **Pay-by-phone**:** 1-800-123-4567
- **Automatic Deduction:** Enroll at www.springsidemortgage.com
- **In Person:** At any Springside Mortgage branch

*Select "My Mortgage Info" from the "Online Services Menu."
** A fee may apply for this service.

Online Services

Springside Mortgage offers a variety of online services to help you better manage your mortgage loans including:

- Payments
- Electronic Statements
- "Notify me" alerts for payments received or escrow disbursements

You can also view your loan payment history, amortization schedule, principal balance, interest rate and escrow account activity Simply visit www.springsidemortgage.com and select "My Mortgage Info" from the online services menu. For further assistance please contact us at 1-800-678-4567.

Payment Information

- **Additional Amount:** Please designate how you want additional funds to be applied; we will apply them as directed provided your account is current. If your account is current, undesignated funds will be applied per the terms of your mortgage loan documents. Regardless of the account status, principal prepayments will only be applied to your account if your contract allows for prepayments.
- **Please be prompt**. Payments must reach Springside Mortgage by the due date. **Your payment is credited on the day it is received at our payment center, not the day it is postmarked.** Payments made at a Springside Mortgage branch prior to the change of the business day will be credited the same day. Payments are not accepted at Springside Mortgage origination offices.
- If you are in bankruptcy or received a bankruptcy discharge of debt, this communication is not an attempt to collect a debt against you personally, but strictly for informational purposes only.
- **Notice of Negative Information:** We may report information about your account to the Credit Bureaus. Late payment, missed payments, other defaults, or bankruptcy filing on your account may be reflected in your credit report.

Mortgage Counseling and Assistance

If you would like counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. Below is contact information for the housing finance authority in your state and for three state- or federally-approved counseling programs in your area.

- **California Department of Housing and Community Development**
  1800 3rd St
  Sacramento, CA 95811
  916-445-4782
  www.hcd.ca.gov
- **Consumer Credit Counseling Service of Orange County**
  2450 E. Lincoln
  Anaheim, CA 92806
  714-547-2227 or 866-784-2227
  www.cccsoc.org
- **Neighborhood Assistance Corporation of America – Los Angeles**
  241 South Market St
  Inglewood, CA 90301
  310-412-2600 or 888-297-5568
  www.naca.com
- **Los Angeles Neighborhood Housing Services, Inc.**
  3926 Wilshire Blvd, Suite 200
  Los Angeles, CA 90010
  213-381-2862 or 888-895-2467
  www.lahs.org

Automated Account Information

Account information is easy to access through Springside Mortgage's Automated Phone Service by calling 877-555-9988 or 1-800-555-2222. Please have your loan number and the first five (5) digits of your Social Security Number to access this convenient service. Automated information is available Monday-Sunday 7:00 a.m. to 11:00 p.m., Eastern Time.

Consumer Complaints and Inquiries

- You can direct any complaints and inquiries to Springside Mortgage by referencing the "Contact Us" section on the first page of this statement.
- You have the right to file complaints about Springside Mortgage with your state banking department.

Service Fee Schedule (Unless Limited by State Law)*

Amortization Schedule: $25.00
Account History (per year): $10.00
Duplicate 1098/Escrow Analysis: $10.00
Verification of Mortgage: $20.00
Document Copies (per request): $20.00
Subsequent Payoff Statement: Varies
Automated Payment by Phone: $15.00
Fax Fee: Varies
Returned Check Fee: Varies
*May be subject to change

Important Springside Mortgage Contact Information

Payments:
P.O. Box 11111
Los Angeles, CA 90010
Correspondence Address:
P.O. Box 12111
Buffalo, NY 14240
Fax Numbers:
Fax payoff requests: 1-866-221-2222
Fax all other Customer Service requests: 1-866-555-5555
Overnight Mail:
1 Fountain Plaza
Buffalo, NY 14203
Questions about Insurance:
P.O. Box 32309
Springfield, OH 45501
Questions about Tax:
P.O. Box 209433
Fort Worth, TX 76161

Homeowners Insurance/Property Tax Information

- **Insurance Requirements:** The terms of your loan require that you maintain homeowner's insurance coverage not less than the replacement value of your property. We suggest that you consult your insurance company to determine these coverage amounts. Flood Insurance is required for all properties located in a Special Flood Hazard Area as designated by FEMA.
- **Policy Information:** To protect our mutual interests, the mortgage clause of your policy must include the following: Springside Mortgage, its Successors and/or Assigns, Mortgage Loan #____, P.O. Box 392, Springfield, OH 20932. If you pay your own insurance, please ensure that you provide us with your current insurance information by visiting our website at www.mycoverageinfo.com. You may also mail or fax a copy of the declaration page to our office (Fax # 1-877-495-4455).
- **Damaged Property:** In the event of damage to your home, notify your insurance agent. After the claim has been filed, please contact us at 1-888-555-3434 so that we may guide you through this process.
- **Loans with Tax Escrow:** If your property taxes are paid from an escrow account with us and you receive a tax bill, please forward the bill immediately to the following address: Springside Mortgage, P.O. Box 30944, Fort Worth, TX 39393. Please be sure to write your loan number on the bill. It is no longer necessary to forward paid tax receipts on non-escrow accounts. For property-related tax questions please call 1-877-555-4444.

ATTACHMENT C-1

Adjustable Rate Mortgage Reset Notice
Tested in Towson, Maryland
February 1-2, 2012

January 20, 2012

Changes to Your Mortgage Interest Rate and Payments on July 20, 2012

This notice tells you that your interest rate may begin to change on July 20, 2012. Note that any change to your interest rate may also change your mortgage payment. For more detailed information, please refer to your loan agreement(s).

	Current Rate and Monthly Payment	**Estimated New** Rate and Monthly Payment
Interest Rate	4.25%	5.75%
Total Monthly Payment	**$1,746.00**	**$2,463.00 (due August 1, 2012)**

Interest Rate: The interest rate on your adjustable rate mortgage (ARM) will change based on an index, plus a margin of 2.25%. Your index is the 1-year LIBOR index, which is published daily in the Wall Street Journal.

Rate Limits: Beginning July 20, 2012, your rate can change each year by no more than 2.00%. Your rate can not go higher than 11.625% over the life of the loan.

New Monthly Payment: The table above shows our estimate of your new interest rate and new monthly payment. The index on which your interest rate is based may change at any time, making it impossible to predict exactly what your interest rate and payment will be after July 20, 2012. The estimate is based on today's index value, your margin of 2.25%, your current loan balance of $243,267 and your remaining loan term of 324 months.

Possible Alternatives: If you seek an alternative to the upcoming changes to your interest rate and payment, the following options may be possible (most are subject to lender approval):

- Refinance your loan with us or another lender.
- Sell your home and use the proceeds to pay off your current loan.
- Renegotiate your loan terms with us.
- Payment forbearance, which temporarily gives you more time to pay your monthly payment.
- Transfer ownership of the property directly to us in order to avoid foreclosure.

Prepayment Penalty: Keep in mind that if you pay off your loan, refinance or sell your home before May 1, 2012 you could be charged a penalty of up to $4,323.13.

If You Anticipate Problems Making Your Payments: Contact us at 1-800-555-4567 as soon as possible. If you would like counseling or assistance, you can contact any of the following:

Federal and State Housing Finance Agencies:

- U.S. Department of Housing and Urban Development (HUD): For a list of counseling agencies or programs in your area, go to www.hud.gov or call 800-569-4287.

(*continued on other side*)

- Maryland Department of Housing and Community Development
  100 Community Place
  Crownsville, MD 21032
  410-514-7000 or 1-800-756-0119
  www.mdhousing.org

Federally- or State-approved counseling agencies and programs:

- Consumer Credit Counseling Services of Maryland and Delaware, Inc.
  757 Frederick Rd
  Baltimore, MD 21228
  1-866-731-8486
  www.cccs-inc.org

- St. Ambrose Housing Aid Center, Inc.
  321 E. 25th St
  Baltimore, MD 21218
  410-366-8550 x235
  www.stambros.org

- Housing Initiative Partnership, Inc.
  6525 Belcrest Road, Suite 555
  Hyattsville, MD 20782
  301-699-3835
  www.hiphomes.org

ATTACHMENT C-2

Adjustable Rate Mortgage Reset Notice
Tested in Memphis, Tennessee
February 29 – March 1, 2012

Springside Mortgage
1234 Main St
Memphis, TN 38101

February 20, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Changes to Your Mortgage Interest Rate and Payments on August 20, 2012

Under the terms of your Adjustable Rate Mortgage (ARM), you had a three-year period during which your interest rate stayed the same. That period ends on August 20, 2012, so on that date your interest rate may change. After that, your interest rate may change annually for the rest of your loan term. Any change in your interest rate may also change your mortgage payment.

	Current Rate and Monthly Payment	**Estimated New** Rate and Monthly Payment
Interest Rate	4.25%	5.75%
Total Monthly Payment	**$1,746.00**	**$2,463.00 (due September 1, 2012)**

Interest Rate: On August 20, 2012 and every year after that, we will calculate your interest rate by taking a published "index rate" and adding a certain number of percentage points, called the "margin." Under your loan agreement, your index rate is the 1-year LIBOR and your margin is 2.25%. The LIBOR index is published daily in the Wall Street Journal.

Rate Limits: Your rate can change each year by no more than 2.00%. Your rate cannot go higher than 11.625% over the life of the loan.

New Interest Rate and Monthly Payment: The table above shows our estimate of your new interest rate and new monthly payment. This estimate is based on today's LIBOR index, your margin of 2.25%, your current loan balance of $243,267 and your remaining loan term of 324 months. **However, if the LIBOR index has changed on August 20, your new interest rate and payment may be different from what is shown above.**

Possible Alternatives: If you seek an alternative to the upcoming changes to your interest rate and payment, the following options may be possible (most are subject to lender approval):

- Refinance your loan with us or another lender.
- Sell your home and use the proceeds to pay off your current loan.
- Modify your loan terms with us.
- Payment forbearance temporarily gives you more time to pay your monthly payment.
- Transfer ownership of the property directly to us in order to avoid foreclosure.

Prepayment Penalty: Keep in mind that if you pay off your loan, refinance or sell your home before June 1, 2012 you could be charged a penalty of up to $4,323.13.

If You Anticipate Problems Making Your Payments: Contact Springside Mortgage at 1-800-555-4567 as soon as possible. If you would like counseling or assistance, you can contact any of the following:

Federal and State Housing Finance Agencies:

- U.S. Department of Housing and Urban Development (HUD): For a list of counseling agencies or programs in your area, go to www.hud.gov or call 800-569-4287.

(Continued on other side)

- Tennessee Housing Development Agency
  404 James Robertson Pkwy, Ste 1200
  Nashville, TN 37243-0900
  615-815-2200 or 1-800-228-THDA
  www.thda.org

Federally- or State-Approved Counseling Agencies and Programs:

- Financial Counselors of America
  3294 Poplar Ave, Ste 304
  Memphis, TN 38111
  901-722-5000 or 1-877-450-4404
  www.financialcounselors.org

- Memphis Consumer Credit Education Association
  1661 Aaron Brenner Dr, Ste 201
  Memphis, TN 38120
  901-321-6800
  www.mccea.net

- Memphis Housing Resource Center
  2400 Poplar Ave, Ste 220
  Memphis, TN 38112
  901-529-1151
  www.mhrc.info

ATTACHMENT C-3

Adjustable Rate Mortgage Reset Notice – Interest-Only Feature
Tested in Los Angeles, California
April 3-4, 2012

Springside Mortgage
1234 Main St
Los Angeles, CA 90010

March 29, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Changes to Your Mortgage Interest Rate and Payments on September 29, 2012

Under the terms of your Adjustable Rate Mortgage (ARM), you had a three-year period during which your interest rate stayed the same. That period ends on September 29, 2012, so on that date your interest rate may change. After that, your interest rate may change annually for the rest of your loan term. Any change in your interest rate may also change your mortgage payment. Also, as of September 29, 2012 your mortgage payment will include principal as well as interest.

	Current Rate and Monthly Payment	**Estimated New** Rate and Monthly Payment
Interest Rate	4.25%	6.25%
Principal	**- none -**	$1,556.14
Interest	$861.57	
Escrow (Taxes and Insurance)	$460.27	$502.67
Total Monthly Payment	**$1,321.84**	**$2,058.81 (due October 1, 2012)**

Interest Rate: On September 29, 2012 and every year after that, we will calculate your interest rate by taking a published "index rate" and adding a certain number of percentage points, called the "margin." Under your loan agreement, your index rate is the 1-year LIBOR and your margin is 2.25%. The LIBOR index is published daily in the Wall Street Journal.

Rate Limits: Your rate cannot go higher than 11.625% over the life of the loan. Your rate can change each year by no more than 2.00%. If not for this rate limit, your estimated rate on September 29 would be 1.00% higher. This additional amount may be applied to your interest rate when it adjusts again next year.

New Interest Rate and Monthly Payment: The table above shows our estimate of your new interest rate and new monthly payment. This estimate is based on today's LIBOR index, your margin of 2.25%, your current loan balance of $243,267 and your remaining loan term of 324 months. **However, if the LIBOR index has changed on September 29, your new interest rate and payment may be different from what is shown above.** Your new payment will cover all of your interest and some of your loan's principal, and therefore will reduce your loan balance.

Possible Alternatives: If you seek an alternative to the upcoming changes to your interest rate and payment, the following options may be possible (most are subject to lender approval):

- Refinance your loan with us or another lender.
- Sell your home and use the proceeds to pay off your current loan.
- Modify your loan terms with us.
- Payment forbearance temporarily gives you more time to pay your monthly payment.
- Transfer ownership of the property directly to us in order to avoid foreclosure.

Prepayment Penalty: Keep in mind that if you pay off your loan, refinance or sell your home before September 1, 2012 you could be charged a penalty of up to $4,323.13.

If You Anticipate Problems Making Your Payments: Contact Springside Mortgage at 1-800-555-4567 as soon as possible. If you would like counseling or assistance, you can contact any of the following:

(Continued on other side)

Federal and State Housing Finance Agencies:

- U.S. Department of Housing and Urban Development (HUD): For a list of counseling agencies or programs in your area, go to www.hud.gov or call 800-569-4287.

- California Department of Housing and Community Development
  1800 3rd St
  Sacramento, CA 95811
  916-445-4782
  www.hcd.ca.gov

Federally- or State-Approved Counseling Agencies and Programs:

- Consumer Credit Counseling Service of Orange County
  2450 E. Lincoln
  Anaheim, CA 92806
  714-547-2227 or 866-784-2227
  www.cccsoc.org

- Neighborhood Assistance Corporation of America – Los Angeles
  241 South Market St
  Inglewood, CA 90301
  310-412-2600 or 888-297-5568
  www.naca.com

- Los Angeles Neighborhood Housing Services, Inc.
  3926 Wilshire Blvd, Suite 200
  Los Angeles, CA 90010
  213-381-2862 or 888-895-2467
  www.lahs.org

ATTACHMENT D-1

Force-Placed Insurance Notice
Tested in Towson, Maryland
February 1-2, 2012

Springside Mortgage
1234 Main St
Baltimore, MD 21216

January 22, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Towson, MD 21204

Subject: PROVIDE PROOF OF INSURANCE for 4700 Oak Ridge Lane, Towson, MD 21204

Dear Mr. and Mrs. Jones:

Under the terms of your mortgage, you must maintain adequate homeowners' insurance coverage on the property referred to above. Our records show that your existing homeowners' insurance policy has expired or been cancelled, and we do not have evidence that you have obtained new coverage.

If you do not have insurance coverage, we have the right to purchase hazard insurance on your behalf and charge you for the cost. The insurance that we buy:

- Will cost you an estimated **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

In order to avoid being charged, you must show us evidence that you have your own insurance coverage for the property. If you do provide evidence of coverage, you will not be charged for any period during which you had your own insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

The total cost of the insurance we buy will include the premium and any applicable taxes or fees. If you have an escrow account, this cost may be charged to your escrow account. If you do not have an escrow account, we may establish an escrow account in accordance with the terms of your mortgage.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Baltimore, MD 21216 or send a fax to 410-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

ATTACHMENT D-2(a) and (b)

Force-Placed Insurance Notices
Tested in Memphis, Tennessee
February 29 – March 1, 2012

D-2(a)

Springside Mortgage
1234 Main St
Memphis, TN 38101

February 22, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Subject: PLEASE PROVIDE PROOF OF INSURANCE for 4700 Oak Ridge Lane, Memphis, TN 38109

Dear Mr. and Mrs. Jones:

Our records show that your homeowners' insurance policy lapsed on February 20, 2012, and we do not have evidence that you have obtained new coverage. **Because insurance is required on your property, we have purchased insurance on your behalf.**

You should immediately purchase or renew your own insurance policy, because the insurance we purchased:

- Will cost you **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

If you give us proof of insurance coverage**,** we will cancel our policy and will not charge you for any period during which you had your own insurance. However, you will have to pay us for any period during which you did not have insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Memphis, TN 38101 or send a fax to 410-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

D-2(b)

Springside Mortgage
1234 Main St
Memphis, TN 38101

February 22, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Subject: PLEASE PROVIDE PROOF OF INSURANCE for 4700 Oak Ridge Lane, Memphis, TN 38109

Dear Mr. and Mrs. Jones:

Our records show that your homeowners' insurance policy lapsed on February 20, 2012, and we do not have evidence that you have obtained new coverage. **Because insurance is required on your property, we may purchase insurance on your behalf.**

You should immediately purchase or renew your own insurance policy, because the insurance we purchase:

- Will cost you an estimated **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

If we purchase insurance on your behalf**,** you will have to pay us for any period during which you did not have insurance. However, we will not charge you for any period during which you can prove you had your own insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Memphis, TN 38101 or send a fax to 410-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

WP

ATTACHMENT D-3

Force-Placed Insurance Notice - Renewal
Tested in Los Angeles, California
April 3-4, 2012

Springside Mortgage
1234 Main St
Los Angeles, CA 90010

March 29, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Subject: PLEASE PROVIDE PROOF OF INSURANCE FOR 4700 Oak Ridge Lane, Los Angeles, CA 90010

Dear Mr. and Mrs. Jones:

Because we did not have evidence that you had hazard insurance on the property listed above, we purchased force-placed insurance coverage on your behalf, effective May 13, 2011. Before we charged you for this policy, we sent you two notices by mail asking you to provide us proof that you had your own hazard insurance coverage. We still do not have evidence that you have obtained your own coverage.

The policy that we purchased is scheduled to expire on May 12, 2012. **Because insurance is required on your property, we are going to renew the policy we obtained and charge the premium to you.**

You should immediately purchase your own insurance policy, because the insurance we purchased:

- Costs you **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

If you give us proof of insurance coverage at any time**,** we will cancel our policy and will not charge you for any period during which you had your own insurance. However, you will have to pay us for any period during which you did not have insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Los Angeles, CA 90010 or send a fax to 323-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

RN

ATTACHMENT E

Error Resolution and Inquiry Procedures

	Error	Inquiry
Method of Contact	Written (or electronic if the servicer provides a website or similar means of submitting alleged errors); Oral (by telephone)	Written (or electronic if the servicer provides a website or similar means of submitting inquiries); Oral (by telephone)
Borrower Must Provide	Information that enables servicer to identify the borrower's name and account, the type of error the borrower believes to have occurred, and when the error occurred	Information that enable servicer to identify the borrower's name and account, and sufficient detail to enable the servicer to understand what information the borrower seeks
Within 5 Days (excluding weekends and holidays) after receipt	For all assertions of error, whether qualified written request or not, the servicer must acknowledge receipt of the complaint in writing, unless the error or is resolved and a written explanation is provided to the borrower in less than five days	For inquiries, whether qualified written request or not, must acknowledge receipt of the correspondence in writing, unless the requested information is provided to the borrower in less than five days
Within 30 Days (excluding weekends and holidays) after receipt	Unless the type of error is subject to a shorter designated time frame for resolution,[26] complete investigation; and either: • Correct the error and provide the borrower with written notification of the correction, the date of the correction, and contact information for further assistance; • If the servicer concludes that a different error occurred, provide the borrower with written notification that includes a statement explaining the error identified, the corrective action taken, the date of the	Unless otherwise provided in the regulation, provide to the borrower without charge either: • The information requested; or • Explain why the requested information is unavailable or cannot be obtained by the servicer; and Contact information for further assistance.

[26]For errors related to providing an accurate final payoff statement, the CFPB is considering proposing limiting the error correction time frame to five days (excluding weekends and holidays). With respect to errors related to suspending foreclosure proceedings while the borrower is performing under a trial or permanent modification, the error correction time frame would be the earlier of a scheduled foreclosure sale or 30 days (excluding weekends and holidays).

	corrective action, a statement of the borrower's right to request documents relied upon by the servicer in reaching its decision within 30 days (excluding weekends and holidays) of the date of the written notification and how the borrower can request such documents, and contact information for further assistance; or • If the servicer concludes that no error occurred, provide the borrower with written notification that includes a statement of reasons as to why the servicer believes that no error occurred, a statement of the borrower's right to request documents relied upon by the servicer in reaching its decision and how the borrower can request such documents, and contact information for further assistance such as follow up questions;	
Standard for Investigation	Reasonable	N/A
Exceptions to Duty to Investigate Errors/Respond to Inquiries	• The borrower did not provide sufficient information to investigate the alleged error (*e.g.*, if the servicer cannot determine what error the borrower is alleging) • The alleged error is substantially the same as a previously-submitted alleged error for which the servicer has complied with the applicable error resolution provisions unless the borrower provides new, material supporting information.	The borrower makes a frivolous or irrelevant inquiry that: • does not pertain to the borrower or the borrower's account; • does not pertain to any standard servicer duty; • seeks information about the servicer's financial data, personnel, trade secrets or other confidential information; or • requires the servicer to review lengthy, mostly irrelevant text to find a valid inquiry

	In these situations, the servicer may terminate the error resolution process by notifying the borrower in writing not later than five business days of making its determination.	
Servicer Rights	• Request supporting documentation from borrower so long as it is not a condition of investigating the alleged error or concluding no error has occurred because the borrower failed to provide any requested documentation • For errors subject to the standard 30 day (excluding weekends and holidays) investigation timeframe, extend the investigation by 15 days (excluding weekends and holidays) if servicer notifies borrower of the extension and reasons for the delay before the end of the 30 days (excluding weekends and holidays) period, or the end of the designated response time frame for the type of error).	For inquiries subject to the standard 30 day (excluding weekends and holidays) timeframe for responding, extend time period for responding to an inquiry by an additional 15 days (excluding weekends and holidays) if the servicer notify the borrower of the extension and the reasons for the delay before the end of the 30 day (excluding weekends and holidays) period (or a period provided in the regulation).
Post-Investigation	Upon borrower request, provide relevant documents to borrower without charge within 15days (excluding weekends and holidays).	

Appendix D

Panel Outreach Meeting PowerPoint Slides

[See attached]

Mortgage Servicing Rulemaking

SBREFA Panel Outreach

April 24, 2012

Note: This document was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion nor the relative emphasis of topics therein.

Consumer Financial Protection Bureau

WELCOME AND INTRODUCTIONS

- CFPB Welcome and Opening Remarks
- SBA Opening Remarks
- Introduction of SBREFA Panel
- Introduction of SERs and Agency Staff

Consumer Financial Protection Bureau

OUTREACH AGENDA / SCHEDULE

Item	Time (min)
Welcome and Introductions	8:00 – 8:15
General Overview: What is SBREFA? Your Role in the SBREFA Process Background on Servicing Regulation	8:15 – 8:30
Topic 1: Periodic Statements and Coupon Book Exception	8:30 – 9:15
Topic 2: Adjustable Rate Mortgage Disclosures	9:15 – 10:00
Topic 3: Force-Placed Insurance	10:00 - 10:45
Morning Break	10:45 – 11:00
Topic 4: Error Resolution and Responses to Inquiries	11:00 – 12:00
Lunch Break	12:00 – 1:00
Topic 5: Reasonable Information Management Policies	1:00 – 1:30
Topic 6: Early Intervention and Continuity of Contact	1:30 – 2:30
Topic 7: Prompt Crediting and Payoff Amounts	2:30 – 3:00
Afternoon Break	3:00 – 3:15
Topic 8: Impact on the Cost of Business Credit	3:15 – 3:45
Additional Feedback/Wrap-Up	3:45 – 5:00

cfpb Consumer Financial Protection Bureau

WHAT IS SBREFA?

- The Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996 requires the CFPB to form a Small Business Review Panel to seek input directly from small financial service providers for any proposed rule that may have a significant economic impact on a substantial number of small providers.

- A Small Business Review Panel consists of the representatives from:
  - the CFPB,
  - the Chief Counsel for Advocacy of the Small Business Administration (SBA), and
  - the Office of Management and Budget's Office of Information and Regulatory Affairs (OMB).

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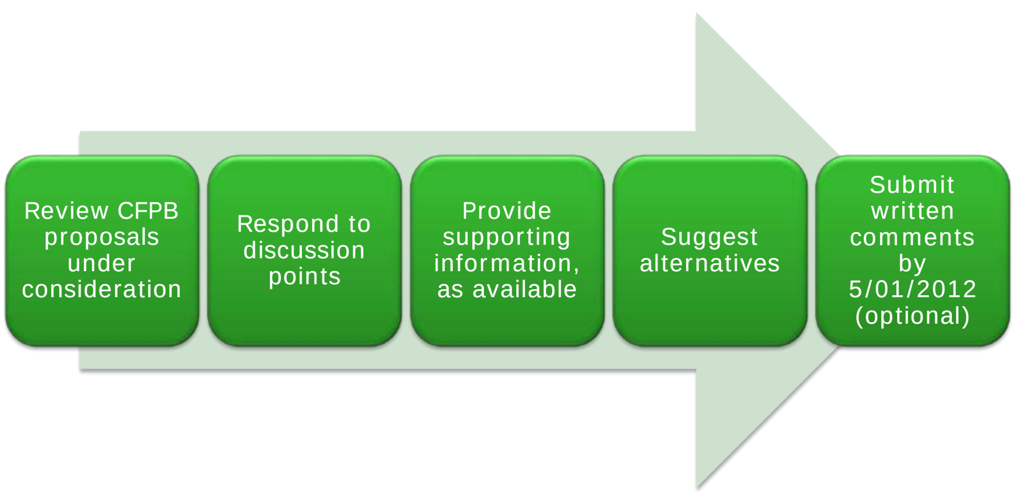
YOUR ROLE IN THE SBREFA PROCESS

You have been selected as a small entity representative (SER) for the mortgage servicing rulemaking.

- A SER is a representative of a small entity that likely will be subject to the requirements of a proposed rule under consideration by the CFPB.
- SERs' participation in the rulemaking process helps to ensure that the CFPB is made aware of the concerns and issues specific to small entities.
- The Panel (CFPB, SBA, & OMB) uses your input to prepare a report that includes the Panel's findings on alternatives to minimize the burden on small entities.
- The report is made part of the rulemaking record and is considered by CFPB decisionmakers.

YOUR ROLE IN THE SBREFA PROCESS



BACKGROUND

- The Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA) currently impose certain requirements on mortgage servicers.
- As the current crisis revealed, this limited regulatory scheme proved insufficient to prevent deficient servicing practices, consumer confusion, or consumer harm.
- The Dodd-Frank Act empowers the CFPB to address these problems by:
  - Requiring servicers to provide new consumer disclosures, including with respect to periodic statements, interest rate adjustments and force-placed insurance,
  - Requiring prompt crediting of consumer payments and provision of payoff statements,
  - Expanding consumer rights to dispute errors and obtain information from servicers, and
  - Authorizing the CFPB to enact other regulatory requirements appropriate for consumer protection purposes.

SCHEDULE

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Topic 1: Periodic Statements and Coupon Book Exception

CFPB PROPOSAL UNDER CONSIDERATION

- The Dodd-Frank Act requires "the creditor, assignee, or servicer" of a residential mortgage loan to transmit to the borrower, for each billing cycle, a periodic statement that contains general information about their mortgages, how borrowers may obtain information regarding their mortgages, and how troubled borrowers may get help.

- The periodic statement requirement does not apply to any fixed rate residential mortgage loan where the borrower is given a coupon book with substantially the same information as required by the periodic statement.

- The CFPB is considering proposing that the periodic statement serve as a billing statement, as well as providing borrowers with general information about their mortgages, how borrowers may obtain information regarding their mortgages, and how trouble borrowers may get help.

- The CFPB is considering proposing alternative ways of presenting the information in the coupon book format, given size limitations and the ability to provide updated information for each billing cycle in that format.

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Topic 1: Periodic Statements and Coupon Book Exception

DISCUSSION POINTS

1. Do you provide your borrowers with periodic statements?

- If so, how do you distribute them (*e.g.*, mail, email, Web portal, other)?

2. If you provide periodic statement disclosures, what information that the CFPB is considering requiring do you currently <u>not</u> provide?

3. What would you need to do to develop, produce and send a periodic statement disclosure with all of the information the CFPB is considering requiring?

- What would those actions cost?
- Which costs would be one-time costs and which would be ongoing?

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Topic 1: Periodic Statements and Coupon Book Exception

DISCUSSION POINTS (cont'd)

4. If you already provide periodic statements, how do you store records of the statements and the information provided in them?

- What must you do to store the statements and the information in a machine-readable form?
- What would those actions this cost?

5. Do you provide borrowers with coupon books for making payments?

- To what percentage of borrowers do you provide coupon books?

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Topic 2: Adjustable Rate Mortgage Disclosures

CFPB PROPOSAL UNDER CONSIDERATION

- The Dodd-Frank Act requires a creditor or servicer to provide a written disclosure, separate from all other correspondence, regarding the adjustment or reset of the interest rate for certain adjustable rate mortgages (ARMs) 6 to 7 months before the interest rate in effect during the introductory period of such ARMs adjusts or resets to a variable rate. (If the adjustment or reset occurs during the first 6 months after consummation, then the disclosure must be provided at consummation.)

- The CFPB is considering a proposal requiring creditors or servicers to provide this written disclosure for all ARMs secured by a consumer's principal residence.

- Current TILA rules requires creditors to provide ARM disclosures 25 to 120 days before an ARM interest rate adjustment causing a change in payment. Similar disclosures are required annually if no rate adjustment during that timeframe caused a change in payment. The CFPB is considering a proposal to harmonize these rules with the Dodd-Frank requirements.

Topic 2: Adjustable Rate Mortgage Disclosures

DISCUSSION POINTS

1. If you currently provide ARM interest rate adjustment disclosures, how far in advance of the first adjustment do you send the disclosure?

- Is the timeframe different for subsequent adjustments?

2. If you currently provide ARM reset notices, what information the CFPB is considering requiring do you currently <u>not</u> provide?

- What would you need to do to develop, produce and send an ARM reset notice with all of the proposed information?
- What would those actions cost?
- Which costs would be one-time costs and which would be ongoing costs?

3. In your experience, is the first interest rate reset generally more problematic for borrowers than subsequent resets?

Note: "ARM reset notice" means an ARM interest rate adjustment disclosure that pertains to the <u>initial</u> interest rate adjustment.

SCHEDULE

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Additional Feedback/Wrap-Up	3:45 – 5:00

cfpb Consumer Financial Protection Bureau

Topic 3: Force-Placed Insurance

CFPB PROPOSAL UNDER CONSIDERATION

- The Dodd-Frank Act prohibits a servicer from obtaining force-placed insurance without a reasonable basis to believe the borrower has failed to comply with contractual property insurance requirements.

- The Act requires servicers to provide borrowers with two written notices over a 45-day timeframe before charging for force-placed insurance. Upon receiving written confirmation of coverage from a borrower, a servicer must terminate the force-placed insurance and provide a refund for force-placed premiums and related charges paid by borrower for all periods the borrower had coverage.

- The CFPB is also considering a proposal that would amend current RESPA rules by requiring servicers to make timely disbursement from escrow to pay a borrower's property insurance premium even if the borrower is more than 30 days past due and even if the servicer has to advance the funds, unless the borrower's policy was canceled for reasons other than nonpayment of premiums.

- The CFPB is considering clarifying that "force-placed insurance," and thus the rule, do not apply to servicers who re-purchase a borrower's pre-existing policy with the borrower's express consent.

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Topic 3: Force-Placed Insurance

DISCUSSION POINTS

1. Do you have vendor costs associated with force-placed insurance? (e.g. costs for providing disclosures to borrowers, monitoring coverage on properties in your portfolio, placing force-placed insurance?)

- If so, what are they?

2. If you or your vendor communicates with borrowers with respect to placing coverage on the borrowers' behalf, what information the CFPB is proposing to require do you currently not provide?

- What actions would you need to take to ensure that a force-placed insurance disclosure with all of the proposed information is provided to borrowers?
- What would those actions cost you and would the costs be one-time or ongoing costs?

3. What costs may a proposal that amends current RESPA rules on the timely disbursements of insurance premiums out of escrow impose on you?

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Topic 4: Error Resolution and Responses to Inquiries

CFPB PROPOSAL UNDER CONSIDERATION

➢ The Dodd-Frank Act provides for a number of prohibitions with respect to servicers' handling of alleged errors and borrower inquiries for information, including revising RESPA's timeframe for responding to qualified written requests (QWRs).

➢ As set forth in the Dodd-Frank Act, a servicer of a federally related mortgage shall not:

- Charge fees for responding to valid QWRs, as defined by the CFPB;
- Fail to respond within 10 business days to a borrower's request for the identity and contact information for the owner or assignee of the loan; or
- Fail to take timely action to respond to a borrower's requests to correct errors relating to:

  (1) allocation of payments,

  (2) final balances for purposes of paying off the loan,

  (3) avoiding foreclosure, or

  (4) other standard servicer duties.

Topic 4: Error Resolution and Responses to Inquiries

CFPB PROPOSAL UNDER CONSIDERATION (cont.)

- In order to cover each of the areas for which servicers must correct errors, the CFPB is considering proposing to define "errors" with an exclusive list.

- The CFPB is also considering proposing a comprehensive set of procedures and timeframes for servicers to investigate and respond to borrowers' oral and written assertions of error and inquiries for information.

  - The procedures would incorporate, but not be limited to RESPA's use of QWRs to address "servicing" issues, as defined by RESPA.

  - The timeframes would generally track the revised timeframes for responding to QWRs in RESPA, subject to certain explicit exceptions the CFPB is considering proposing.

- The CFPB is considering proposing to exclude open-end lines of credit, like HELOCs, from these provisions because they are subject to distinct error resolution procedures under TILA.

Topic 4: Error Resolution and Responses to Inquiries

DISCUSSION POINTS

1. The CFPB is considering proposing an exclusive list of errors. If a borrower contacts you in writing and claims that one of the errors on the list has occurred, how do you currently respond?

- If a borrower contacts you orally, is your response different?
- Does your response depend on the type of loan the borrower has?
- What borrower issues or errors do you currently respond to that are not on the list of errors the CFPB is considering?

2. The CFPB is considering proposing timeframes for responding to alleged errors from borrowers. Are there alleged errors to which you do not currently respond in the timeframes the CFPB is proposing?

- If so, what actions would you need to take in order to respond within these timeframes?
- What would those actions cost?
- Which costs would be one-time and which would be ongoing?

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Topic 5: Reasonable Information Management Policies

CFPB PROPOSAL UNDER CONSIDERATION

- The CFPB is considering requiring servicers to establish reasonable policies and procedures for managing borrower information in order to achieve certain objectives, such as:

  (1) Provide accurate and timely disclosures.

  (2) Minimize errors and facilitate prompt error correction.

  (3) Maintain records of borrower contact (with a possible exception for some small servicers).

  (4) Facilitate loss mitigation, such as ensuring reasonable and timely access to documents about the borrower or submitted by the borrower in connection with loss mitigation requests.

  (5) Enable servicers to transfer all relevant and accurate information and documents about a borrower to a subsequent servicer during a mortgage loan servicing transfer or a forum addressing foreclosure.

- The CFPB is considering proposing that the reasonableness of a servicer's information management policies and procedures would depend upon the servicer's size and the nature and scope of its activities.

Topic 5: Reasonable Information Management Policies

CFPB PROPOSAL UNDER CONSIDERATION (cont.)

- The CFPB is considering proposing to explain a violation would occur if the servicer:

  (1) fails to establish reasonable information management policies and procedures, or

  (2) demonstrates a pattern or practice of failing to comply with the information management policies and procedures it establishes.

- An occasional failure to comply with established policies and procedures would not constitute a violation.

- Note: Civil liability in a private action may arise from violation of the CFPB's proposed reasonable information management policies and procedures regulation.

Topic 5: Reasonable Information Management Policies

DISCUSSION POINTS

1. Do you currently manage information in a way that allows you to meet the duties the CFPB is proposing to be stated in your information management policies and procedures?

2. If there are certain duties you can't meet due to how you currently manage information, what actions would you need to take with respect to how you manage information to meet these duties?

- What would those actions cost?
- Which costs would be one-time and which would be ongoing?

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Topic 6: Early Intervention and Continuity of Contact

CFPB PROPOSAL UNDER CONSIDERATION

Early Intervention

- The CFPB is considering proposing requiring servicers to make good faith efforts to contact delinquent borrowers no later than 45 days after the onset of delinquency and to respond promptly to borrowers who contact them about having or expecting to have trouble making payments.
- For delinquent borrowers, the CFPB is considering requiring servicers to provide written information about options to help avoid foreclosures and information about the foreclosure process no later than 45 days after the date of delinquency.
- For borrowers who contact their servicers about having or expecting to have trouble making payments, the CFPB is considering requiring servicers to provide the written information within 5 days of the borrower making such contact.
- The CFPB is considering exempting small servicers from this written disclosure requirement with respect to portfolio loans if they make good faith efforts to contact borrowers no later than 45 days after the borrowers become delinquent.

Topic 6: Early Intervention and Continuity of Contact

CFPB PROPOSAL UNDER CONSIDERATION

Continuity of Contact

- The CFPB is considering proposing requiring servicers to provide all borrowers who become 45 days delinquent or who request help in avoiding delinquency with direct and on-going access to employees dedicated to serving such borrowers.
- These employees would have ready access to:
  - A complete record of the borrower's payment history and previous communications between the servicer and the borrower or a third party acting on the borrower's behalf from the earlier of the date of delinquency or the date when the borrower first requested assistance;
  - All documentation associated with loss mitigation submitted by or on the borrower's behalf;
  - Underwriters that may evaluate the borrower for loss mitigation; and
  - Information on the status of any current or pending foreclosure action.
- The CFPB may consider proposing adjustments to these requirements if the CFPB finds that certain small servicers already maintain consistent, but less formal, contact with their delinquent or troubled borrowers.

Topic 6: Early Intervention and Continuity of Contact

DISCUSSION POINTS

Early Intervention

1. How long after delinquency do you currently attempt to contact borrowers?

- Would you ever wait longer than 45 days before attempting to contact the borrower?

2. If your procedure is different from the proposed early intervention procedures, what actions would you need to take in order to comply with them?

- What would those actions cost?
- Which costs would be one-time and which would be ongoing?
- Would the costs be substantially mitigated if you did not have provide written information a delinquent borrower for portfolio loans?

3. Would the costs of complying be substantially mitigated if you did not have to contact a delinquent borrower in writing if you originated the delinquent loan and held it in portfolio?

Topic 6: Early Intervention and Continuity of Contact

DISCUSSION POINTS (cont'd)

Continuity of Contact

1. How much staff do you currently have to work with troubled borrowers?

- How do you provide access to this staff?

2. If you currently do not provide troubled borrowers with direct and ongoing access to staff (*e.g.*, a dedicated phone number that is staffed during business hours), what actions would you have to take to do so?

- What would those actions cost?

3. Does the staff that works with troubled borrowers currently have ready access to the information described in the proposal?

- If not, what information is not readily available?
- What actions would you need to take in order to make sure that staff has access to this information?
- How much would those actions cost?

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Topic 7: Prompt Crediting and Payoff Amounts

CFPB PROPOSAL UNDER CONSIDERATION

Prompt Crediting

- The Dodd-Frank Act requires servicers to credit payments on a consumer's principal dwelling as of the date of receipt, except if the delay does not result in a charge or the reporting of negative information to a consumer reporting agency.
- The servicer may, however, specify in writing requirements that the consumer must follow to make conforming payments. If non-conforming payments are accepted, servicers must credit payments 5 days after receipt.
- The CFPB is considering proposing retaining the current TILA rule requiring partial payments be treated in accordance with legal obligations as determined by applicable state or other law.
- The CFPB is also considering proposing to require that as soon as the amount in a suspense account equals a full contractual payment, the servicer must credit the payment to the earliest delinquent payment.

Topic 7: Prompt Crediting and Payoff Amounts

CFPB PROPOSAL UNDER CONSIDERATION

Payoff Amounts

- The Dodd-Frank Act requires the creditor or servicer of a "home loan" to send an accurate payoff balance within a reasonable time, but no more than 7 business days, after the receipt of a written request for the payoff balance from or on behalf of the borrower.
- Current TILA rules address payoff amount requests for certain high cost mortgages, but create a 5 business day safe harbor.
- The CFPB is considering proposing a rule that would generally follow the Dodd-Frank Act and require an accurate payoff balance to be provided no later than 7 days (excluding holidays and weekends) after the receipt of a written request from the borrower.
- The CFPB is considering proposing the term "home loan" be construed broadly but that it exclude reverse mortgages.

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Topic 7: Prompt Crediting and Payoff Amounts

DISCUSSION POINTS

Prompt Crediting and Payoff Amounts

1. How do you currently handle partial payments from borrowers?

2. If you currently place partial payments in suspense accounts, when do you credit the borrower with a payment?

3. If you do not credit the borrower with a full payment once a full payment is in the suspense account, what actions would you need to take in order to do so?

- What would those actions cost?
- Which costs would be one-time and which would be ongoing?

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Topic 8: Impact on the Cost of Business Credit

CFPB PROPOSAL UNDER CONSIDERATION

- The Regulatory Flexibility Act requires the CFPB to consult with small entities regarding any potential increase in the cost of credit for small entities that would result from the proposals under consideration, and on alternatives that minimize any such increase.

- At this time, the CFPB has no evidence that the proposals under consideration would result in an increase in the cost of credit for small entities.
  - The proposals under consideration would apply only to mortgage loans obtained by consumers primarily for *personal, family, or household purposes*.
  - The proposals would not apply to loans obtained primarily for business purposes.

- The CFPB is seeking the advice and recommendations of the SERs regarding this issue.

Topic 8: Impact on the Cost of Business Credit

DISCUSSION POINTS

1. Which of the proposals under consideration, if any, do you believe may impact the cost of credit for small entities?

- Why might this occur?
- Are there significant alternatives to any of the proposals that may minimize the impact on the cost of credit for small entities while accomplishing the statutory objectives addressed by that proposal?

2. Do you extend consumer mortgage loans that are used *secondarily* to finance a small business?

- If so, what percentage of all of your consumer mortgage loans are these loans?
- What is the average amount of the credit extended on these loans?
- What percentage of the credit extended is actually used for a business purpose?
- Would the proposals under consideration cause you to increase the rates or fees you charge for these loans? (If yes, please describe the increase that you anticipate, your basis for anticipating that increase, and any feasible alternatives to the proposals under consideration you would recommend to minimize that increase.)
- Do you believe these borrowers could instead obtain home-secured business loans (*i.e.*, a home-secured loan used *primarily* for business purposes) from you or another lender?

Topic 8: Impact on the Cost of Business Credit

DISCUSSION POINTS (cont.)

3. In the past year, have you, as a small entity, taken out a consumer mortgage loan that you also used secondarily to finance your small business?

- If so, in the past year, what percentage of your business costs did you fund through such credit?
- Do you believe that the proposals under consideration would cause you to pay higher rates or fees for such loans?
  - If yes, why might this occur?
  - If yes, please describe any feasible alternatives to the proposals under consideration you would recommend to minimize the increase.
- As an alternative to this type of credit, could you obtain a home-secured business loan (*i.e.*, a home-secured loan used *primarily* for business purposes)?

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ADDITIONAL FEEDBACK

DISCUSSION POINTS

- Are there any feasible alternatives to the proposals under consideration that would minimize any significant economic impact on your business while accomplishing the CFPB's statutory mandate and objectives?
  - The CFPB is particularly interested in learning whether adjustments may be called for in the case of small servicers that originate loans for their customers and self-service those loans either while held in portfolio or after selling the loans (servicing retained) to Government-Sponsored Enterprises ("GSEs") or other investors.
  - The CFPB seeks to understand how consumers would be protected in those cases where adjustments are suggested.
- Are there any other federal rules that you believe may duplicate, overlap or conflict with the proposals under consideration?

WRAP-UP

CLOSING REMARKS: DAN SOKOLOV, CFPB

- Written comments are due no later than **May 1, 2012.**
- Please email comments to Rachel Ross, Rachel.Ross@cfpb.gov