

# What is CFPB?

The Consumer Financial Protection Bureau (CFPB) is an independent federal agency that holds primary responsibility for regulating consumer protection with regard to financial products and services in the United States. The CFPB is issuing a rule requiring easier-to-use mortgage disclosure forms that clearly lay out the terms of a mortgage for a homebuyer.

The new **"Know Before You Owe"** forms will replace the existing federal disclosure forms and help consumers both understand a mortgage better and make loan comparisons. The rule also requires that consumers receive these forms in advance of making key decisions, so they have time to process the deal before signing on the dotted line.

**Starting October 3, 2015**, mortgage lenders must use the new forms and homebuyers will be able to more clearly understand what they are getting into—the terms of the loan, their obligations, and what could possibly change.



## NEW "KNOW BEFORE YOU OWE" MORTGAGE FORMS

Consumers will get a simple accounting of their likely payments and fees, and how much they may increase, to prevent costly surprises. They will be able to better comparison shop for the best mortgage. Both forms will be available in English and Spanish versions.

- The Loan Estimate: provided to consumers within three business days after they submit a loan application. It replaces the early Truth in Lending disclosure and the Good Faith Estimate, and provides a summary of the key loan terms and estimated loan and settlement costs.
- The Closing Disclosure: provided to consumers three business days before consumers close on a loan. It replaces the final Truth in Lending Statement and the HUD-1 uniform settlement statement. In addition to summarizing the final loan terms and costs, the Closing Disclosure provides consumers with a detailed accounting of their transaction.

### Improved Consumer Understanding



Consumers of all different experience levels, with different loan types—whether they are buying a home or refinancing—are better able to understand the new forms. They are better able to decide whether they can afford the loan, including the cost of the loan over time:

Risk factors: Consumers can more easily identify risky loan features. In addition, lenders will have to tell homebuyers about any:

- Prepayment penalties
- Balloon payments
- An increase in the loan balance in a negative amortization loan,

### Better Comparison Shopping



When consumers understand their loan offers, they can better compare competing offers:

- Comparisons of competing loan offers: Homebuyers and those refinancing their existing mortgage are better able to distinguish between two different loan offers.
- Shopping for closing costs: Consumers can save money if they shop around for their own service providers for some of these costs. The forms plainly outline what closing services a consumer will need and which ones they can shop around for.

### Avoiding Costly Surprises at the Closing Table



With the current forms, consumers can have a hard time comparing their original loan terms with their final loan offer. Consumers need to be reasonably sure that the mortgage they signed up for is the one they thought they were getting. The CFPB's rules curtail "bait and switch" tactics, where the terms change at closing, by implementing several new consumer protections:

- Easier comparisons of the estimated and final terms of the loan
- More time to consider choices
- Limits on closing cost increases

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