Regulation Review

CFPB Final Integrated Mortgage Disclosure Rule

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Last August, the Consumer Financial Protection Bureau (CFPB) published a proposed rule under Dodd-Frank that would consolidate certain mortgage disclosure forms into a single set of paperwork. The Bureau recently released its final version of the rulemaking. The unofficial, pre-publication version of the rule [PDF] is 1,888 pages.

Currently, borrowers face two collections under Regulation X (Real Estate Settlement Procedures Act) and Regulation Z (Truth in Lending). According to CFPB, "The information on these forms is overlapping and the language is inconsistent." This rule would combine the two into a new collection that would have two major components: the "loan estimate" and the "closing disclosure." Although there are distinct parts to this new collection, CFPB believes the new format will eliminate redundancies and correct inconsistencies.

BREAKDOWN

Proposed Rule Costs: $106.78 million

Proposed Rule Paperwork: (-) 8.45 million hours

Final Rule Costs: $1.37 billion

Final Rule Paperwork: (-) 8.45 million hours

Net Change: $1.26 billion in added costs, no change in paperwork

ANALYSIS

The rule aims to reduce the paperwork burden for certain mortgage entities. However, it obviously brings significant costs, far higher than originally proposed. CFPB has increased its cost estimate by nearly 1,300 percent. At more than $1.3 billion, it is the third most expensive Dodd-Frank rule to-date. According to their analysis, this increase results from adjustments in their estimates responding to comments submitted by stakeholders.

The original proposal's estimates largely focused on the pure labor costs of compliance, but the final rule takes into account the cost of upgrading compliance software and employee training. The largest single cost component involves firms implementing entirely new procedures, framed by the rule as "a complete rewrite, from the ground up." The Bureau now estimates that the total cost of that particular area will exceed $870 million. Furthermore, although the proposed rule provided estimates of costs for creditors, CFPB now includes the approximately $340 million in costs that for settlement agents.

The Bureau admits that this massive implementation roll-out will have an out-sized effect on smaller institutions. In the Regulatory Flexibility Act (RFA) analysis, CFPB states that the rule will have "a significant economic impact on a substantial number of small entities," or SISNOSE. According to the rule, out of 50,515 entities involved, 39,767 (78.7 percent) are considered "small," and engage in closed-end mortgages. The industries included are: "Commercial Banks & Savings Institutions," "Credit Unions," "Mortgage Companies (Non-bank)," "Mortgage Brokers," and "Settlement Agents."

The first three categories compose the rule's universe of "small creditors." In terms of the direct impact for these entities, the rule explains that its requirement will bring "a total cost of … $123 per origination." Upon further review, the per-entity costs are approximately $38,866. According to BLS, the average wage of a "loan officer," is $70,350 per year. Thus, the requirements of this rule cost these entities more than half of a loan officer's salary.

This is notable because, even though CFPB uses a monetary measure to determine "small entities" for the RFA section, 63 percent of the "small creditor" entities employ less than 10 workers. For those establishments, even the equivalent of half of an employee's salary represents a significant cost that could affect the feasibility of hiring another worker.

This rule ostensibly seeks to reduce burdens by consolidating paperwork into a more efficient collection. And CFPB goes to great lengths to emphasize that the various costs burdens will be a one-time instance that entities can amortize over five years. However, despite all of this, this rule represents one of the most significant Dodd-Frank rules in terms of cost and clearly imposes stark costs for small businesses.