CSBS RESIDENTIAL MORTGAGE MODEL DISCLOSURE
EXPLANATORY STATEMENT
June 13, 2007

The attached Model Disclosure is an initial discussion draft. Its purpose is to initiate discussion and expose alternatives to the traditional required disclosure forms, primarily the Truth in Lending Act (TIL) disclosure and the Good Faith Estimate (GFE) disclosure. Some problems with existing early federal disclosures are:

- *Complexity and lack of clarity*. Often the disclosures are even confusing for the trained professional, much less the average consumer.
- *Too little information*. Some of the most important information a borrower requires in order to make an informed decision is not required in the existing disclosures. For example, there is no requirement to show the borrower the loan amount, the interest rate or the full amount of their monthly obligations in any of the early federal disclosures.
- *Too much information*. In some areas there is simply too much complicated information for the borrower to understand. For example, the TIL boldly expresses annual percentage rate (APR), Finance Charge, Amount Financed and Total of Payments, none of which the borrower finds very useful in understanding the offered loan.
- *No requirement for actual provision*. Federal regulation requires that the TIL and GFE simply be placed in the mail without any proof of having done so. Neither form requires a borrower's signature or acknowledgement of receipt. With no required acknowledgement, many investigations have found that essential disclosures were never provided to borrowers, although produced for the regulator as file documentation.

Format

The guiding intent of the CSBS model disclosure format is twofold:

1. To provide the borrower with a single, double sided, 8.5x11 inch disclosure form that gives the borrower enough clear information to make an informed decision, and
2. To limit a loan originator's ability to misrepresent the transaction and to commit the company to a straightforward and realistic expression of the loan offered.

The disclosure form initially advises the borrower that the document should be read in its entirety and that there are two pages of information to the disclosure (to prevent a single side delivery). The form explains to the borrower that the terms offered are initial estimates and that if the estimates change, re-disclosure will be made.[1] Finally, the bottom of page 1 requires specific acknowledgement of provision by the originator or company representative and acknowledgement of receipt by the borrower. Page 2 of the form tells borrowers how to compare loan terms and existing payments to offered payments.

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[1] It is strongly recommended that an originator's ability to change terms be restricted to certain limits to avoid the practice of bait and switch (see Washington law RCW 19.146.030(4) for example of limits).

Key elements of front side of the CSBS Disclosure:

- Loan Amount: Actual dollars to be borrowed, versus Amount Financed on TIL.
- Loan Type (e.g., 30 year fixed rate): Not required by existing disclosures.
- Rate: The note rate from which the actual monthly payments are derived.
- Payment: Monthly payment, including taxes, insurance and other monthly amounts.[2]
- Loan Costs: Rather than a litany of costs with vague descriptions (current GFE), this early form shows total fees to be paid to each of the originator (e.g. mortgage broker), the lender, and all other parties. A borrower's early decision is not dependent on knowing each and every cost item, but rather, how much the loan will cost. A lengthy list of possible costs confuses and hides potential overcharges and makes comparison between originators very difficult.
- Simple additional information about the terms of the loan: Potential rate change prior to closing; Rate Adjustments; Highest Rate possible; Inclusion/Exclusion of reserves for taxes, insurance, and other; Details of the Payment; Highest Payment possible; Earliest Date of Highest Payment; the fact that the borrower's home is at risk; Dollar Amount of Costs Financed and Dollar Amount of Costs Paid Out of Pocket; Inclusion of Prepayment Penalty and Expiration Date of Penalty.

Reverse side of the CSBS Disclosure

The reverse side of the disclosure provides additional important information to the consumer that is not available in the federal forms:

- A short guide to comparing loan terms and a simple comparison of the borrower's existing monthly obligation to the proposed obligation in a refinance. This key comparison eliminates one of the prime deceptions used by predatory lenders to convince borrowers to refinance their loan.
- Information about nontraditional features such as negative amortization, loan re-pricing and the effects of borrower "payment shock" with these features.
- A prepayment penalty table that shows the actual dollar amount of penalty to be paid by the borrower at each early payment period throughout the penalty term.
- Balloon Payment information and what the borrower should expect.
- Demand Payment information and what the borrower should ask.
- Reduced Documentation disclosure that informs the borrower of reduced documentation underwriting and the risks associated with this feature.

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[2] While this disclosure form requires the originator to clearly disclose the inclusion or exclusion of monthly reserves in a dollar amount, it has been suggested that originators be required to disclose the actual dollar amount of excluded reserves in an "effective" monthly payment so that borrowers are reminded of the full obligation owed.