

# Tougher Lending Regulations

## Give Power Back to the Borrower

by: Chuck Simmons



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**J**uly 30th of 2009 was a big day in the world of mortgage lending. Most consumers probably did not see any difference from the 29th to the 30th but everyone in the industry from mortgage lenders to real estate agents to settlement companies had to change the way they have traditionally done business in a new effort to provide more transparency and protection for borrowers. This was the day that new regulatory guidelines took affect which state that borrowers must be given ample time to receive documentation and review documentation before closing on their real estate transaction.

“All of these changes are a positive step in combating predatory lending practices and should give the power back to the borrower at the end of the transaction.”

Before I explain the changes, I would like to make sure everyone is clear on the difference between interest rate and annual percentage rate (APR). Your interest rate is the true amount of interest you pay on a loan for a specified period of time. The interest rate and the loan term determine what your payment will be during that loan term. The APR calculation takes into consideration some of the costs you incur for taking out the loan and figures a new rate based on those costs. If you get quotes from two lenders and one lender has a lower interest rate than the other, it is reasonable to assume that the corresponding APR for that lender will also be lower. If the lender with the lower rate has an APR the same as or higher than the other lender, chances are you are paying much higher costs with the lender offering you the lower rate. The APR is designed to give you a benchmark from which to make a more informed

decision. The problem in the past was that there was very little regulation regarding when a borrower needed to be informed of changes to the APR during the loan process. Because of this, some borrowers were put into a situation where they did not know their loan rate or terms had changed until right before closing and were faced with a choice of taking less favorable terms than what they had agreed to or losing their chance to buy this house. The updates to the Mortgage Disclosure Improvement Act now require lenders to inform buyers of any changes well before a loan closes. Below are some highlights of the new requirements:

### Initial Disclosures

MDIA now requires a seven business day waiting period prior to loan closing. This timing begins when the lender mails or otherwise delivers the required initial disclosures to the borrower. It is not based on a receipt date or assumed receipt date, but rather the mailing or delivery date by the lender. The MDIA is defining “business day” as all calendar days except for Sundays and legal holidays. This timing is intended to provide borrowers ample time to thoroughly consider and evaluate the terms of the loan.

### Corrected Disclosures

The MDIA requires that if the APR increases or decreases by more than .125% (per the Iowa Bankers Association and the American Bankers Association) during the loan process from the APR listed in the most recent disclosures the borrower received, a new set of corrected disclosures must be sent out to the borrower. These corrected disclosures must show all changed terms and must be in the borrower’s hands no later than three business days before the date of closing. This means that it is no longer allowable for a borrower to find out about changes to their loan terms or loan costs at the closing table and still feel forced to sign the documents. Borrowers now must be given three additional days to review the documents if the changes were significant enough to change the APR by more than the specified .125% tolerance.



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### No Requirement to Complete

Early and subsequent disclosures must contain a clear notice stating “You are not required to complete this agreement merely because you have received the disclosures or signed a loan application”. This added verbiage will ensure borrowers are not forced to complete a loan transaction with a lender they no longer choose to work with. Borrowers should never feel pressured to complete transactions with which they are not comfortable.

These new regulations should help alleviate some of the stress of financing a home. While a borrower may never realize the impact of these changes, everyone should be able to rest a little easier knowing that the standards have just been raised for all of us.



*Chuck Simmons is Vice President of First American Bank Home Mortgage. Chuck can be reached at (515)778-8519, Chuck.Simmons@BankFirstAmerican.com*