



## CFPB Issues Final Rules Amending Regulation Z Escrow Requirements, As Required by Dodd-Frank

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BY: EDMUND D. HARLLEE

On Tuesday, January 22, the Consumer Financial Protection Bureau (the “Bureau”) published final rules (with official interpretations) in the *Federal Register* to amend its Regulation Z (Truth in Lending). These changes were made in order to implement changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”).

Currently, Regulation Z requires creditors to establish escrow accounts for “higher-priced mortgage loans” secured by a first lien on a principal dwelling. Generally, “higher-priced mortgage loans” are closed-end loans secured by the borrower’s principal dwelling and having an annual percentage rate that exceeds certain statutory thresholds. The final rules lengthen the time that escrows have to be maintained on such loans, and exempt certain transactions from coverage.

The Bureau’s final rule amends Regulation Z to require that escrows be maintained on “higher-priced mortgage loans” secured by a first lien on a principal dwelling for a period of five years after closing. Currently, the required length of time is one year.

The final rules also create an exemption from the escrow requirements for small lenders operating in primarily rural or underserved areas. To qualify, the lender must (i) make over half of its first-lien mortgage loans in these areas, (ii) have less than \$2 billion in assets, (iii) together with its affiliates, have originated 500 or fewer first-lien mortgage loans in the preceding calendar year, and (iv) with

certain exceptions, not escrow for any mortgage loan currently serviced by it or its affiliates. The exemption applies to any loan originated by a qualifying lender that will be retained in the lender's portfolio, but not to a loan that is to be purchased by an investor under a forward commitment, unless the purchaser also qualifies for the exemption.

Finally, the rules broaden an existing exemption for escrows related to loans secured by condominium units. Currently, the exemption applies to insurance escrows only. The final rules extend this to include any other situation in which a borrower's property is covered by a master insurance policy.

These final rules take effect as to transactions for which lenders have received applications on or after June 1, 2013.

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- Edmund D. "Ed" Harlee – 703.760.5208 – eharlee@williamsmullen.com

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