Article Side

US mortgage reforms on the way by Apil Gupta

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The US mortgage industry is set for reforms in the form of shorter forms, if the Consumer Financial Protection Bureau has its way. However, there is a significant amount of history and skepticism behind this move, which is also being seen as a wild goose chase for a trivial pursuit. The reform is an initiative of the bureau which was set up by Democratic US Senate candidate Elizabeth Warren, and takes cue from the Dodd-Frank Act of 2010.

According to the Truth in Lending Act, which was administered by the Federal Reserve, and the Real Estate Settlement Procedures Act, which was overseen by the Department of Housing and Urban Development, required separate forms to get a mortgage estimate and closing. Even after many efforts to combine these procedures, there was no substantial result. Hence, the bureau was entrusted with the responsibility. However, it is noteworthy than in lieu of the upcoming reforms, the Consumer Bankers Association has asked the consumer bureau to apply the proposal to new forms and regulations.

This is being promoted as a more organized approach in an industry that needs to confirm to these changes, all with the intent of making things easier for customers. On February 21 st, the consumer bureau announced via an advisory that itâ€™s mulling over changes to the usage of the Annual Percentage Rate (APR), which is the key metric established in the Truth in Lending Act for calculation of the mortgage cost. The APR includes the interest rate plus other fees related to the mortgage and are basically created to give a single metric to the consumer to know the cost of the loan. But the Truth in Lending law also excludes some pretty hefty fees from the APR calculation, like charges for title searches and insurance.

It is expected that the consumer bureau may incorporate other fees into the APR calculation (including title costs). However, if title insurance is indeed a part of the calculation, then lenders have the option of negotiating volume discounts and reducing the price that can be charged by title insurers. As of now, owing to the rules, the title insurers can have a cartel, of sorts. The upcoming reform may end up confusing borrowers. There is also the concern that an all-in APR would be detrimental for consumer sentiment with regards to shopping for title insurance and may also mislead customers regarding costs in states where the seller is always expected to pay the title fees; where the charges are split between and buyer and the seller; and where the buyer pays the charges. Also, an all-in APR would significantly reduce the availability of credit by forcing low income borrowers into high cost loans, resulting in increased cost of credit.

The draft mortgage forms of the bureau have also been criticized by consumer advocates. These forms are used as a graphic to de-emphasize the APR calculation in favor of the interest rate, which creates an opportunity for lenders to increase their fees and raise the total cost of the loan. You can contact me for Adjustable rate mortgage, Home mortgages, Mortgage loan, 30 year mortgage rates, 15 year mortgage rates.

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