TRID Rule Has Helped Borrowers Understand Their Loans

By: Jann Swanson | Fri, Oct 2 2020, 11:31 AM

The TRID Rule has been in effect for exactly 5 years (October 3, 2015) and the Consumer Financial Protection Bureau (CFPB) has published an assessment of its effects and effectiveness. The TRID Rule and its associated disclosures and forms was part of a mandate to CFPB included in the Dodd-Frank Wall Street Reform and Consumer Protection Act to combine previously separate mortgage disclosures given to consumers under the Truth in Lending Act (TILA) and the 1974 Real Estate Settlement Procedures Act (RESPA). Dodd-Frank also mandates an assessment of the rule within five years of the effective date.

Before the TRID Rule, Federal law generally required that consumers applying for mortgages receive two different forms, one with disclosures regarding the cost of credit (TILA) and another concerning real estate settlement costs, the Good Faith Estimate (GFE). Shortly before settlement consumers received two additional forms: the final TILA disclosure and the RESPA settlement statement (HUD-1).

The TRID Rule mandates an early loan estimate including that integrates the GFE and the early TILA disclosure as well as certain Title XIV Disclosures. The TRID Rule's Closing Disclosure form integrates the HUD-1 and final TILA disclosure as well as certain Title XIV Disclosures. The Rule also specifies the time frame under which the forms and disclosures are provided to the consumer.

The goals of the rule include:

- Facilitating compliance with the disclosure requirements of TILA and RESPA
- Ensuring that consumers receive **full and accurate information on their mortgages**
- Making it easier for consumers to locate key information
- Allow consumers to **compare the cost of different mortgage offers** and the estimate of actual terms and costs
- Aid consumers in understanding the mortgage and help them **decide if they can afford a mortgage**

It was also hoped that the rule would enable consumers to pick the best loans for them, know whether they actually get the price and terms they expected, allow time for questions and negotiation between application and settlement, promote more efficient closings, and lower paperwork burdens.

The assessment found:

§ TRID disclosure forms **improved prospective borrowers' abilities to locate key mortgage information** and improved their abilities to both compare the features and costs of different mortgage offers and to compare estimated and actual loan terms and costs.

§ Most evidence showed the **disclosure forms improved borrowers' ability to understand** loan estimates and loan transactions.

§ Evidence was mixed regarding whether the Rule increased consumer shopping for mortgages.

CFPB Director Kathleen L. Kraninger said that the Dodd-Frank Act does not requirement assessments to include a cost-benefit analysis, but she has made it a priority to include them. However, despite the Bureau's best efforts it was not possible to obtain the data necessary to do such an analysis of the TRID Rule. It does, however, appear to have created sizeable implementation costs for lenders and closing companies.

The assessment included surveys of lenders and closing companies and found the typical cost for a lender to implement the TRID Rule was $146 per mortgage originated in 2015, or roughly 2.0 percent of the average cost of originating a mortgage. Similarly, a typical cost for a closing company to implement the TRID Rule was $39 per closing in 2015, or about ten percent of the average cost of closing.

The effects on ongoing costs is less clear. Industry data indicate that mortgage lending costs have steadily increased over the past decade, but there is no data that demonstrates **how much, if any, of these increased costs are attributable to the TRID Rule**. This is compounded by the fact the Bureau implemented other mortgage rules at roughly the same time that also may have affected costs. Lenders indicated their largest implementation costs to be new information technology systems, policies, and training while closing companies said their costs largely stemmed from efforts to understand the requirements of the Rule and from new information technology systems, policies, and training.

The TRID Rule appears to have decreased mortgage originations and increased closing times and the time it was implemented, butt these measures returned to pre-TRID Rule levels in a relatively short period of time. Originations of home purchase mortgages and refinance mortgages dropped notably in the first two months after the Rule's effective date (roughly 14 percent and eight percent, respectively) but recovered quickly. This pattern may be explained by the increase in typical closing times, which would have pushed back the origination dates for some mortgages.

A mortgage quality control software provider reports the share of mortgages with at least one critical defect, one that would result in the mortgage being uninsurable as part of a security or ineligible for sale to its intended recipient on the secondary market, did increase to 1.8 percent during the quarter the rule was implemented (Q4 2015) from 1.2 percent the prior quarter. However, 1.8 percent was also the approximate defect rate in Q2 of that year.

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