

August 2014

# Know Before You Owe – Closing Time Initiative

# Background

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- Where we have been...CFPB and the Know Before You Owe Initiative
- History of KBYO-Closing Time
- Closing Stack Reduction Initiative
- Understanding the Documents in Closing Process
  - What are they?
  - Who put them there?
  - Why are they there?
- Listening Tour
- Shift in Focus

# Key Messages of the Preliminary Report Highlight How eClosing Solutions May Mitigate Closing Challenges

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- 1 Consumers and industry cite many challenges and frustrations during the closing process**
  - Examples of frustrations voiced frequently through RFI / consumer interviews
    - Process-related: timing of document delivery, errors in documents, lack of education and explanation
    - Document-related: large number of documents, documents are difficult to understand

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- 2 eClosing solutions could potentially mitigate many of these concerns...**
  - eClosing solutions could mitigate many of the pain points cited by consumers in RFI
  - Impact of eClosing solutions will depend on specific functionalities that exist today (e.g., earlier delivery of documents) or industry could implement (e.g., embedded educational tools)

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- 3 ...but a shift toward technology may also bring new risks to consumers**
  - Consumer advocacy groups and other organizations highlight potential risk, such as:
    - Consumers may only "click through" documents quickly online
    - Consumers may not understand electronic consent
    - Consumers may not have equal access to technology
    - Data Security Risks

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- 4 Adoption of eClosing is still slow due to both barriers and prevalent myths**
  - Legal, coordination, and operational barriers are preventing more market players (e.g., lenders, settlement agents) from adopting eClosing solutions
  - Our research also found specific myths that serve as de facto barriers to adoption

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- 5 The Bureau is excited to launch a pilot program this year to further evaluate eClosing**
  - CFPB will structure pilot to answer key questions about the impact of eClosing solutions on consumers and the feasibility of expanding adoption

# Current Adoption of eClosing is Slow Due to **Barriers** and **Myths** Across the Industry

	<b>Barriers</b>		<b>Myths</b>
<b>Legal</b>	<b>Inconsistent state laws and requirements</b>	<i>eSignature and eNotarization laws vary across states</i>	 <p>"eSignatures are not accepted for VA loans"<sup>1</sup></p>
	<b>Legal "grey areas" around eSignatures</b>	<i>Stakeholders may not be clear about legal framework for eSignatures</i>	
<b>Coordination</b>	<b>Lack of data standards</b>	<i>No industry standard for eClosing platforms</i>	 <p>"eNotes are not legally valid"</p>
	<b>Required coordination across a multitude of actors</b>	<i>Settlement agents, sub-servicers, investors, etc. must be on board</i>	
	<b>Lack of coordination of GSE eNote requirements</b>	<i>Fannie and Freddie have different eMortgage delivery guidelines</i>	
<b>Operational</b>	<b>Limitations to expansion of eRecording</b>	<i>Some counties do not have resources to manage eRecording</i>	 <p>"eClosings cannot be cost-effective for lenders until all counties accept eRecording"</p>
	<b>Time / cost of change</b>	<i>Upfront investment required, particularly in larger institutions</i>	

1. This myth was clarified by the Department of Veterans' Affairs with a circular on August 22, 2013

# FOCUS of KBYO Pilot: Three key outcomes: understanding, empowerment, and efficiency

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**Our vision is for a *knowledgeable, empowered homebuyer experiencing a more efficient, consumer-friendly process***

**This vision is centered around three critical consumer outcomes that vary widely during mortgage closings today...**

**Consumer  
Understanding**

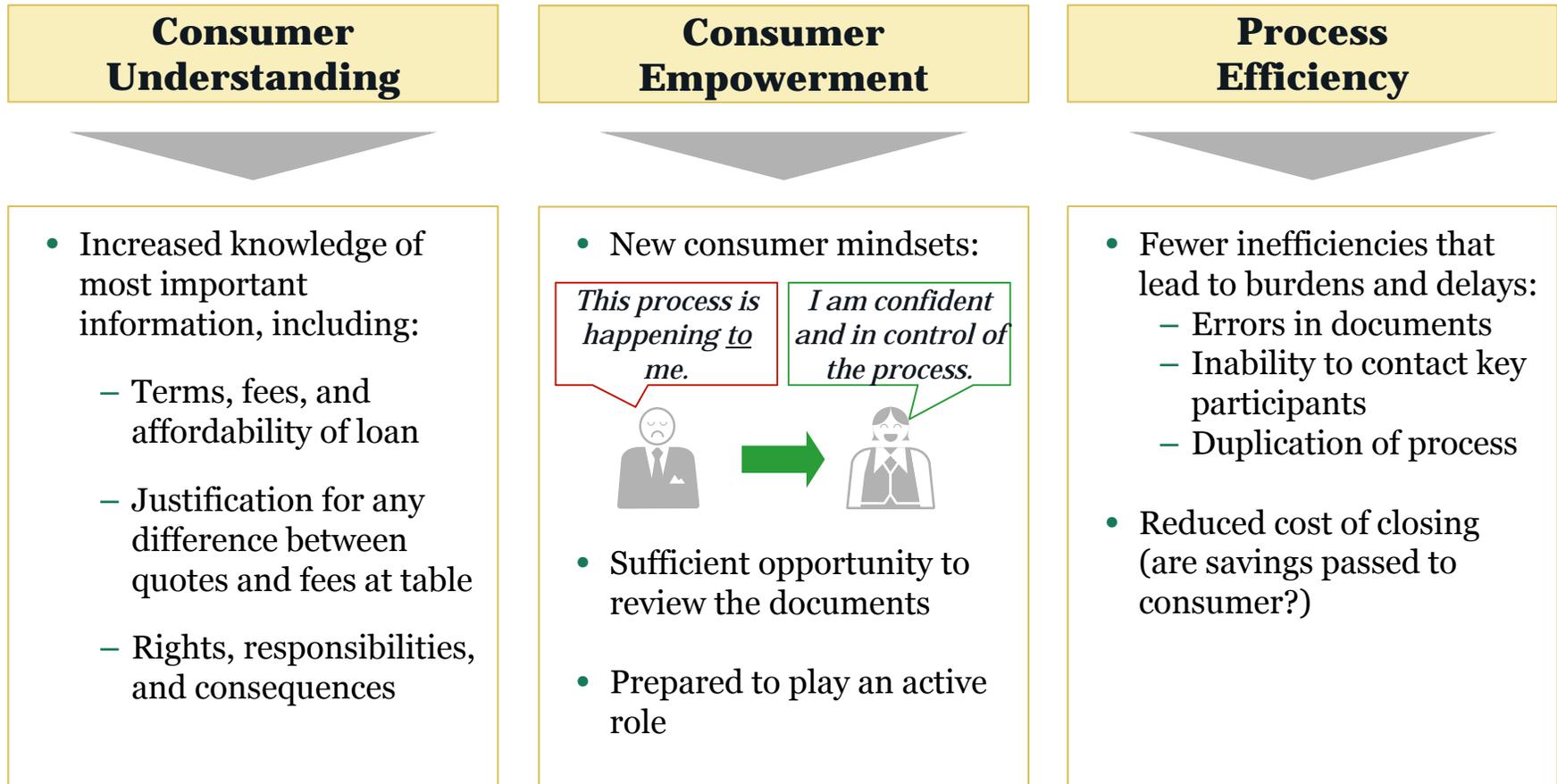
**Consumer  
Empowerment**

**Process  
Efficiency**

**Ultimate objective : create a more consumer-friendly environment in which consumers...**

- Understand the commitment they are making
- Are empowered to play an active role resulting in a sound transaction
- Experience a more efficient and transparent process

# How do we define critical outcomes for consumers?



**Our pilot will focus on measuring how eClosing impacts these outcomes**

# The pilot will focus on three main objectives

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## Key questions

## Objectives

**How could eClosing contribute to an improved closing process?**

**Capture data on whether current eClosing solutions can improve understanding, empowerment, and efficiency for consumers**

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**Test how new, innovative eClosing features and functionalities (e.g., CFPB-created educational tools) can improve current solutions**

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**What is the role for the CFPB?**

**Foster dialogue with industry around**

- Benefits and limitations of eClosing
- Consumer-friendly improvements
- Overcoming barriers to adoption

**We believe electronic Closings could have far-reaching consumer impacts – need to validate these impacts with data**

# CFPB Announces Pilot Participants

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Vendors	Creditors
<ul style="list-style-type: none"><li>• Accenture Mortgage Cadence;</li><li>• DocMagic, Inc.;</li><li>• eLynx;</li><li>• Pavaso, Inc.;</li><li>• PeirsonPatterson, LLP</li></ul>	<ul style="list-style-type: none"><li>• Blanco National Bank;</li><li>• Boeing Employees Credit Union;</li><li>• Franklin First Financial, Ltd.;</li><li>• Flagstar Bank;</li><li>• Mountain America Credit Union;</li><li>• Sierra Pacific Mortgage;</li><li>• Universal American Mortgage Company</li></ul>

# TILA/RESPA Integrated Disclosure Rule

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- Check out the new Integrated Disclosure materials on [consumerfinance.gov](http://consumerfinance.gov)
  - <http://www.consumerfinance.gov/regulatory-implementation/tila-respa/>