

# Introducing the Financial Reform Act

Wells Fargo Home Mortgage has prepared this document to help you understand some of the new regulations and requirements that will be taking effect under the Financial Reform Act. Our goal is to keep consumers and our clients informed as change continues to take place. And we are dedicated to working with our industry colleagues to ensure that individuals and families who turn to us for their home financing needs enjoy a supportive and rewarding customer experience.

## What is the Financial Reform Act?

*A new law to provide greater protection and better information to consumers who do business with financial services companies.*

The **Financial Reform Act**, also referred to as the **Dodd-Frank Wall Street Reform and Consumer Protection Act**, was passed in July of 2010 to establish new requirements to govern banks, insurance companies and hedge funds, as well as other publicly and privately held companies in the financial services industry.

It will take some time to fully understand the hundreds of new regulations and implement all the required changes mandated by the Financial Reform Act. As a result, two new federal agencies with broad authority to write rules and oversee the financial industry have been formed, and many details of the changes will be left to these regulators to determine. The new agencies are:

- 1) **The Financial Stability Oversight Council (FSOC)**  
The FSOC has the authority to issue rules for “systemically important” firms, regardless of whether they are banks. Areas of rulemaking include capital and liquidity, resolution processes and risk management.
- 2) **The Consumer Financial Protection Bureau (CFPB)**  
The CFPB has broad authority to issue rules governing consumer financial products on the basis of “abusiveness” among other areas. CFPB rulemaking began July 21, 2011, when consumer protection responsibilities were transferred from the Federal Reserve and other federal agencies to the CFPB. The CFPB will:
  - Develop and enforce new consumer regulations
  - Integrate consumer financial protection functions currently housed in other federal agencies
  - Promote research and financial education
  - Maintain a national consumer complaint response unit

In addition, the CFPB will enforce existing laws and assume responsibility for the related regulations.

The CFPB launched its website in early February 2011. The site includes a blog updating the bureau’s implementation progress and other Act-related milestones, and a call for suggestions from the public via YouTube, Twitter and its own website interface. For more information, go to: [consumerfinance.gov](http://consumerfinance.gov).

*There are currently a total of 288 statutory provisions in the Financial Reform Act that affect the mortgage industry. The actual number of rules is continually changing as agencies exercise their broad rule-making authority.*

Together we'll go far



## Frequently asked questions

**It sounds like a lot of changes are coming. Will my buyers' loan transactions take more time? Will they still be able to qualify?**

We are still assessing all of the impacts, but are committed to implementing Financial Reform Act-related changes in ways that deliver positive experiences for our customers and clients. We remain committed to making home financing available to a broad spectrum of consumers and communities.

**Will all Financial Reform rules be created by the Consumer Financial Protection Bureau (CFPB)?**

No. The CFPB's main function will be to draft and enforce consumer financial laws and regulations. This includes new Financial Reform regulations, as well as assuming responsibility for other regulations under a number of existing consumer financial laws such as Real Estate Settlement Procedures Act (RESPA), Truth In Lending Act (TILA) and Secure and Fair Enforcement for Mortgage Licensing Act (SAFE). Other Financial Reform rules that do not apply to consumer protection will be written and enforced by other agencies, such as the FSOC.

**Will the Financial Reform Act change documentation requirements?**

Yes, as part of the Ability to Repay provisions in the Financial Reform Act, in most cases borrowers will be required to provide – or lenders must obtain from reliable sources – tax returns, payroll receipts, and/or other documents, which lenders must use to verify the borrower's ability to repay the loan. In general, lenders will be required to consider and verify the following underwriting factors:

- Income or assets relied upon in making the ability to repay requirements
- Current employment status
- The monthly payment on the mortgage
- The monthly payment on any simultaneous mortgage
- The monthly payment for mortgage-related obligations
- Current debt obligations
- The monthly debt-to-income ratio or residual income
- Credit history

Additionally, the lender will need to underwrite the payment for an adjustable rate mortgage based on a fully amortizing payment and the fully indexed rate.

*Please note: These requirements are still considered proposed. The effective date for the final regulations has not yet been released.*

**Will Wells Fargo still be able to originate unique “niche” products and programs?**

Simplified loan products, such as full documentation and 30-year fixed-rate loans, are favored in the Financial Reform Act. However, we, as well as other lenders, are continuing to evaluate the possible impacts the Financial Reform Act will have on our products, programs and services. This evaluation will consider a number of factors, including but not limited to the regulators' definitions of Qualified Mortgages and Qualified Residential Mortgages, for which regulations have been proposed but not implemented.

**What can I do to better educate myself about Financial Reform?**

A number of resources are available to help you stay on top of financial reform related changes:

- CFPB website ([www.consumerfinance.gov](http://www.consumerfinance.gov))
- Media outlets, and
- Your Wells Fargo Home Mortgage consultant

## What changes will the mortgage industry see with Financial Reform?

At a high-level, some changes include:

### Regulator changes

- Large national banks and credit unions with \$10 billion or more in assets will be jointly regulated by the CFPB and the Office of the Comptroller of the Currency (OCC). The OCC and Federal Trade Commission, in addition to other federal agencies, will enforce rules and regulations for smaller banks and non-depository institutions.
- Operating subsidiaries will be regulated by state banking regulators and the OCC. This means our Retail mortgage-lending subsidiaries (also known as Joint Ventures) will now need to abide by applicable state laws relating to disclosures, fees, record retention, advertising and other state requirements.

### Mortgage reform

- The Act enacts key mortgage reform on products, processes, and fees to protect consumers from unfair, deceptive, and abusive practices in the mortgage market.
  - All lenders will be required to confirm borrowers' "ability to repay" their loans.
  - New disclosures will be required that provide the borrower with information about the economics associated with their loan such as total loan costs, mortgage originator compensation, and information about increases in the interest rate and payments over the life of the loan.
  - Other rules may be written by the CFPB on mortgage down payments, disclosures and loan modifications.
- Additional mortgage reform provisions focus on, but are not limited to:
  - Regulating mortgage loan originator compensation.
  - Limiting prepayment penalties to certain fixed-rate loans and eliminating prepayment penalties on adjustable rate loans and higher-priced and high-cost mortgages.
  - Providing certain lender protections for mortgages that do not have risky features or mortgage origination fees in excess of 3% of the loan amount (Note: certain fees and points may not be included in the 3% requirement).
- Requiring stricter appraiser independence and appraisal practices.
- Introducing new disclosure requirements, including ARM reset notices.

## What can you expect from Wells Fargo?

While the mortgage origination process and products we offer may change, our commitment to helping people achieve their home financing goals will not.

We intend to lead the mortgage industry forward, implementing Financial Reform Act-related changes in ways that deliver positive experiences for our customers and clients.

*The Financial Reform Act is an opportunity to ensure our customers continue to receive the information they need to understand loan terms before entering a real estate secured loan agreement.*

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