

The Consumer Financial Protection Bureau (“CFPB”) has proposed new rules to govern the activities of mortgage servicers. Mortgage service companies are the entities which collect mortgage payments from homeowners on behalf of lenders. The practices of mortgage servicers have been under increasing scrutiny as reports of servicing abuse – from delays in posting mortgage payments to high fees and expensive force-placed homeowner’s insurance, have multiplied in recent years.

The CFPB was created by the Dodd-Frank Act and began its work a year ago. The mission of the agency is to help ensure fairness in the consumer finance arena. The CFPB has focused much of its efforts on home mortgages, aiming to streamline procedures and to make them more understandable to borrowers.

The new mortgage servicer rules would require service companies to provide monthly statements to customers and warn them before interest rates are adjusted. Servicers would also be required to offer borrowers more options before initiating foreclosure proceedings. Servicers would be required to make good faith efforts to contact delinquent borrowers to notify them of options that might help them avoid foreclosure. The companies would also be required to provide homeowners advance notice and pricing information about property insurance that the mortgage company forces a homeowner to buy if there is a lapse in the coverage, a practice known as “force-placed insurance.” Recent investigations have revealed that lenders and mortgage servicers are charging as much as 10 times the going rate for force-placed homeowner’s insurance due to commissions and kickbacks the companies receive by steering the business toward insurers with which they have cozy business relationships. The new rules would also require servicers to credit a borrower’s account the day a payment was received, maintain accurate and accessible documents, and promptly review loan modification applications.

The proposed mortgage servicer rules will be open for public comment until October 9. Final rules are expected to be issued in January. The rules will be introduced as amendments to two laws that cover most aspects of buying and financing a home – the Truth in Lending Act and the Real Estate Settlement Procedures Act.