

SUBJECT **REQUIREMENTS OF PERIODIC STATEMENTS FOR MORTGAGE LOANS**

In July 2013 the CFPB issued the final interpretations for changes to Regulation Z precipitated by the Dodd Frank Act, which requires financial institutions to provide a monthly statement to members who have closed-end mortgages. (*The specific addition can be found in Section 1026.41, excerpts from which are quoted below.*)

According to the regulation, financial institutions that are subject to the rule must send a monthly statement for each billing cycle after the payment due date or at the end of the courtesy pay period provided for the previous billing cycle. There is an exemption to this rule if the financial institution provides the member with coupons, but this exemption does not apply to Adjustable Rate Mortgages (ARMs).

It is important for your credit union to thoroughly understand the regulation, and some credit unions may even need to make adjustments to their mortgage servicing rules. This document is intended to explain CU*Answers' intentions with regard to producing the required statements for members.

Summary of Changes Planned

We have begun work on a specification to modify our regular account statement programs to include the required mortgage information. If activated by the credit union, a new segment will be generated at the end of regular account statement that will include the content required by the regulation. The feature will be optional and must be activated by any credit union that wishes to include this data on their statements.

Each mortgage account owned by the member will be printed in its own section using the layout recommended in the appendix of the regulation. The new segment would appear *after* all other account information but *before* any of the summary sections (such as substitute 1099-INTs) that appear on annual statements. Although most members have only a single mortgage account, we are also working through the details of whether each account will be on its own, separate page, or whether multiple accounts could potentially be combined on a single page, assuming it can be done without awkward page breaks. (The regulation is silent on that aspect of the layout.)

For the purposes of the new statement segment, a member will be considered to have a mortgage if there is a loan account configured with process type "M" (mortgage) in the loan category configuration. (This would include both 360-day as well as 365-day interest calc. products.) The activation of this new feature will force a statement to be produced for these members every month, regardless of whether their other account activity would make them eligible for a statement or not.

Addressing the Specifics

Below are a few of the key items from the regulation and an explanation for our specific intentions:

1. Statement timing and delivery § 1026.41(b)

"The periodic statement must be delivered or placed in the mail within a reasonably prompt time after the payment due date or the end of any courtesy period provided for the previous billing cycle."

CU*Answers Response: The new mortgage section(s) will be generated and printed at the end of the member's periodic statement. If a member would not otherwise qualify for a regular statement in a given month, the statement will still be generated, in order to provide the required information for the

member's mortgage(s). We will adhere to Statement Mail Group code settings as well as existing eStatement enrollments relative to delivery.

2. Form of the periodic statement § 1026.41(c)

"Sample forms for periodic statements are provided in appendix H-30. Proper use of these forms complies with the requirements of this paragraph (c) and the layout requirements in paragraph (d) of this section."

CU*Answers Response: CU*Answers will be using the format provided in the appendix of the regulation as the basis for the layout of the new statement sections.

3. Partial Payment § 1026.41(d)(5)

"The periodic statement required by this section shall include:... If a statement reflects a partial payment that was placed in a suspense or unapplied funds account, information explaining what must be done for the funds to be applied. The information must be on the front page of the statement..."

CU*Answers Response: This relates to balance sweep accounts where a member deposits money to a share account until sufficient funds are available to make the complete payment to the loan account. We are *not* programming for this as this type of payment activity as it is not consistently applied across credit unions.

3. Account information Prepayment §1026.41(d)(7)(iv)

"The periodic statement required by this section shall include:... The existence of any prepayment penalty, as defined in § 1026.32(b)(6)(i), that may be charged;"

CU*Answers Response: This element does not exist on the system and our experience suggests that very few if any credit unions charge a prepayment penalty. We are *not* programming for this and defaulting to "no prepayment penalties" in our processing.

4. Delinquency Information §1026.41(d)(8)(iv), (v)

*"(iv) A notice indicating any loss mitigation program to which the consumer has agreed, if applicable;
(v) A notice of whether the servicer has made the first notice or filing required by applicable law for any judicial or non-judicial foreclosure process, if applicable:"*

CU*Answers Response: These elements do not exist on the system and will need to be addressed manually by the credit union. In this case the statement would need to be generated and sent directly by the credit union with the appropriate information.

5. Coupon Book Exceptions §1026.41(e)(3)

"Coupon Books. The requirements of paragraph (a) do not apply to fixed rate loans if the servicer..."

CU*Answers Response: Many of our credit unions have both fixed rate and variable rate loans. Due to the complexities of the regulation, which requires that many other elements of the statement be included, the inclusion of coupons in the statement was determined to be both cost- and time-prohibitive, and we will *not* be including coupons in the new statement segment.

IMPORTANT: Not All Statement Vendors Will Be Supported

This change also marks an important milestone in CU*Answers statement processing: The changes described above will be made *only* to the flat file statement output, *not* to the older-style “print vendor” format that was used before the flat file (data records) output was developed several years ago. Sage Direct and eDOC Innovations, among others, already use the flat file, and it is available for any third-party statement vendor to use for producing printed and electronic statements.

If your credit union’s mortgage program is subject to the new regulations, and your statement vendor does not already use the flat file, you will need to request your vendor to convert to this newer technique, or start looking into a different vendor that already provides that support.

Announcing a Sunset for the “Print Vendor” Statement Format

Because member statement rules continue to be increasingly complex and require more sophistication to handle the data required, CU*Answers will be migrating all statement vendors and their CU*BASE clients to the flat file format over the coming year. **The sunset date for the older-style print format has been set for December 31, 2014.**

Although credit unions who are not subject to the new mortgage statement rules may continue to use the print format until the sunset date, we do anticipate that additional features and changes may also be made over the coming year that will affect only the flat file, prompting you to make the change early in any case.

If your credit union’s statement vendor has not yet upgraded to support the use of flat file data for producing statements, now is the time to start investigating your options and planning during 2014.

Timing and Design Comment Period

In order to meet the January 31, 2014, deadline on the regulation change, we will complete the final specification for the new statement format by September 20, 2013, and will begin programming for the new statement no later than October 1st. We anticipate that the project will be completed by the end of the year and be the base product for complying with the regulation using CU*BASE standard tools.

We are opening up a comment period from now until September 10th regarding the programming specifications. We encourage you to voice your comments on the [Audit Link site](#) for the entire community to review. The Product Team and compliance professionals will review all comments and report back to the community soon after the deadline closes. In early November, Audit Link will schedule a web conference to discuss the progress and any complications that have arisen. Watch your email for an invitation to that event.

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