Advocacy Requests Full Consideration of Economic Impacts in the Board of Governors for the Federal Reserve's Proposed Rule on Escrow Accounts

On May 2, 2011, the Office of Advocacy submitted comments on the Board of Governors of the Federal Reserve System's (hereinafter, "the Board") proposed rulemaking on *Regulation Z; Docket No R-1406 Truth in Lending*. A copy of Advocacy's comments can be found at www.sba.gov/advocacy.

- The proposal implements amendments to TILA made by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Regulation Z currently requires creditors to establish escrow accounts for higher-priced mortgage loans secured by a first lien on a dwelling. The proposed rule will lengthen the time for which these mandatory escrow accounts must be maintained. In addition, the rule proposes disclosure requirements regarding escrow accounts and exempts certain loans from the escrow requirements.

- The Board prepared an initial regulatory flexibility analysis (IRFA) for the proposed rule. In the IRFA, the Board acknowledges that escrow accounts are burdensome but asks commenters to provide further detail. Advocacy expressed concern that the Board may be shifting its burden to provide information about the potential economic impact of the rulemaking onto the small entities that may need to comply.

- Advocacy expressed concern about the narrow scope of the exemption which applies to creditors that make most of their first-lien higher-priced mortgage loans in counties designated by the Board as rural or underserved." In addition, these creditors, together with their affiliates may only originate and service 100 or fewer first-lien mortgages loans, and together with its affiliates may not escrow for any mortgage loan they services. Advocacy asserted that the requirements will be difficult for small entities to meet.

- The proposal requires two new disclosures relating to escrow accounts. The first disclosure would be required three business days before consummation of a mortgage transaction for which an escrow account will be established. The second disclosure would be given when a mortgage transaction is entered into without an escrow account or when an escrow account on an existing mortgage loan will be cancelled. Advocacy recommended that any changes to disclosures be postponed until the issue is transferred to the Consumer Financial Protection Bureau.

For more information, visit Advocacy's webpage at www.sba.gov/advocacy or contact Jennifer Smith at 202-205-6943.