



Wisconsin
Association of
Mortgage Brokers

“Payment Shock” Disclosure

WAMB Position

WAMB supports the right of the consumer to be the decision-maker throughout the loan financing process. To facilitate the decision-making process, WAMB supports clear, consistent, and uniform communication with the consumer from the shopping stage through consummation and afterwards throughout the life of the loan. Disclosures – when used appropriately in conjunction with the consumer financial literacy efforts – alert borrowers to the risks and benefits of a particular loan product. In addition, disclosures enhance meaningful comparison shopping and aid the consumer in exercising their right to make an informed choice.

Issue

Today, consumers are not given the tools needed to shop effectively for a mortgage in a market offering increasingly creative and complex options. Disclosures are laden with legalese, inconsistencies, are not required uniformly across all distribution channels, and fail to provide the information that consumers need most when making a decision. Most notably, there is no current disclosure that communicates to the borrower the variability of their monthly payment (i.e., your monthly payment can go up to X) or interest rate (i.e., your current interest rate is valid only for X months). As a result, consumers are subject to payment shock and left confused and unable to comparison shop loan products. There is a critical need for a uniform disclosure required across all distribution channels that will clearly and concisely impart useful information about the loan product to the consumer and prevent unwanted surprises about payment shock and interest rate variations.

Recommendation:

We propose a one-page disclosure notice that will: (1) educate the consumer about the specific loan product being considered and/or chosen, and (2) enable consumers to exercise an informed and independent choice about a particular loan product.

To address the issues of payment and interest rate shock, we recommend:

1. Requiring all loan originators to provide consumers, regardless of loan-product type, with an additional piece of paper that is loan specific;
2. This one-page disclosure will show the consumer his or her payment variations, (e.g. a minimum and maximum payment for every loan product), interest rate variations, and disclose information about pertinent features such as prepayment penalty and negative amortization, if applicable;
3. This additional disclosure will be implemented through regulation. Specifically, the initial loan-specific disclosure provided early in the shopping stage can be required (e.g., can accompany the estimated GFE), and the final loan-specific disclosure can be required at closing; and
4. Consumer testing by an independent third-party or governmental agency must be required before any form is implemented and required.