BUREAU OF BANKING
Department of Professional and Financial Regulation
State of Maine
June 9, 1986

BULLETIN #39 DELAYED MORTGAGE CLOSINGS

To the Chief Executive Officer Addressed:

During the past several months, interest rates have shown a steady decline. Many borrowers have chosen this favorable rate environment to seek refinancing of existing mortgage debt. Many others have sought purchase money loans to finance the many homes sold in the active real estate market particularly in southern and central Maine. Financial institutions have promoted interest in mortgage loans and refinancing through media campaigns and direct solicitation through field representatives.

Common practice followed by financial institutions in processing applications for mortgage loans has been to offer consumers an opportunity to "lock in" an interest rate to be charged on the indebtedness for a period of time, generally 60 days. In consideration of this guaranteed rate, a fee is paid by the applicant, usually 1% to 2% of the amount to be borrowed.

Due to the inordinate amount of mortgage lending activity which has recently taken place, strains are being placed on those procedures (i.e., appraisals, title searches, and credit verifications) which would normally be completed in a reasonable time frame. It has become increasingly difficult for financial institutions to close on mortgage loans in a committed time frame.

Mortgage interest rates have moved upward slightly and consumers are now being asked to pay the higher rate because their loan did not close within the commitment period through no fault of their own. It is unfortunate, both for the financial institutions and Maine consumers, that this backlog of mortgage loans has occurred. it is even more unfortunate that such processing problems have occurred at a time when interest rates begin to rise, and indeed they may be responsible for part of the increase in mortgage rates. Maine consumers who have bargained in good faith, and have done their part in preparing to close the loan within the commitment period should not bear the burden of additional financing costs due to this turn of events.

The Bureau of Banking has received numerous complaints regarding the inability of financial institutions to close loans within an agreed upon commitment period. The Bureau of Banking recognizes that in most of these instances, closing is delayed because third parties, contracted by the bank, fail to prepare essential documentation in a timely fashion. To hold consumers liable for additional costs in the form of points, fees, or increased interest rates may be deemed an unfair trade practice and the Bureau will review such complaints in accordance with the provisions of Title 9-B M.R.S.A. Chapter 24.

Financial institutions should assess their procedures for processing mortgage loans and reconsider the reasonableness of time frames for interest rate commitments. Those loans for which commitments have been made, but delays in closing are being experienced due to delay in receiving third party contractor's documentation, should be reviewed and the Bureau's position considered when reaching a resolution on the matter with the borrower.

/s/ H. Donald DeMatteis
Superintendent of Banking