



April 28, 2016

**Q: How do you disclose Principal Reduction/Curtailment on the Standard/Long Form version and the Alternative/Short Form version?**

A: In the CFPB's TRID Rule webinar on 4/12/2016, the CFPB stated there are two different reasons for Principal Reduction/Curtailment leading to different ways to disclose it.

**Reason 1:**

On a purchase, the borrower must bring a minimum cash to close amount to comply with program requirements and due to a tolerance cure, the borrower is not meeting the cash investment requirement. In this scenario, the Principal Reduction must be disclosed as "Paid Outside of Closing" with the name of the party making the payment.

**Standard/Long Form version:**

- LE – not be disclosed on the LE
- CD – disclosed in Section L on line 04 with a statement similar to "Principal Reduction for exceeding legal limits P.O.C. Lender" (the wording must be easy for the borrower to understand and must include "P.O.C" and the party making the payment.)
  - Example:

<b>L. Paid Already by or on Behalf of Borrower at Closing</b>	
01	Deposit
02	Loan Amount
03	Existing Loan(s) Assumed or Taken Subject to
04	\$500.00 Principal Reduction for exceeding legal limits P.O.C. Lender
05	Seller Credit
<b>Other Credits</b>	
06	

**Reason 2:**

The borrowers cash out amount exceeds the program limits. In this scenario, the Principal Reduction must be disclosed as a charge in order to reduce the cash out total.

Alternative/Short Form version:

This is the order of preference for where it needs to be disclosed:

1. *Payoffs and Payments*

- a. LE – included in the calculation for the Total Payoffs and Payments in the Calculating Cash to Close table
- b. CD – disclosed in the Payoffs and Payments table and also included in the calculation for the Total Payoffs and Payments in the Calculating Cash to Close table

2. *Section H*

(Note: The previous unofficial CFPB guidance was to use an addendum, however the new official guidance is allowing both of these 2 options.)

Standard/Long Form version:

- Section H on both the LE and CD

\*Note: Although not discussed in the CFPB's webinar, Reason 2 would also apply where a loan has too much Lender Credit, so the borrower is not meeting the minimum cash investment requirement.

If you'd like to listen to the CFPB's webinar on 4/12/2016, the recording may be accessed at <https://www.webcaster4.com/Webcast/Page/577/13784>

***This is not meant to be legal advise. Please seek legal counsel as you implement TRID.***

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