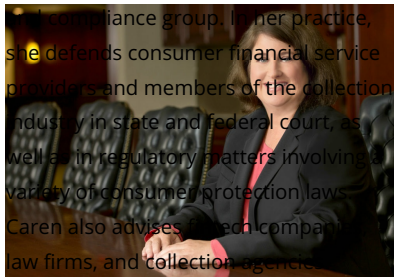


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ABOUT THE AUTHOR

[Caren Enloe](#) leads Smith Debnam's consumer financial services litigation



compliance group. In her practice, she defends consumer financial service providers and members of the collection industry in state and federal court, as well as in regulatory matters involving a variety of consumer protection laws. Caren also advises a broad range of law firms, and collection agencies regarding an array of consumer finance issues. An active writer and speaker, Caren currently serves as chair of the Debt Collection Practices and Bankruptcy subcommittee for the American Bar Association's Consumer Financial Services Committee. She is also a member of the Defense Bar for the National Creditors Bar Association, the North Carolina State Chair for ACA International's Member Attorney Program and a member of the Bank Counsel Committee of the North Carolina Bankers Association. Most recently, she was elected to the Governing Committee for the Conference on Consumer Finance Law. In 2018, Caren was named one of the "20 Most Powerful Women in Collections" by *Collection Advisor*, a national trade publication. Caren oversees a blog titled: [Consumer Financial Services Litigation and Compliance](#) dedicated to consumer

Fifth Circuit: Mortgage Servicing Rules Apply to Servicers Only

January 10, 2019 | by

In a case of first impressions, the Fifth Circuit has held that the CFPB's Mortgage Servicing Rules only apply to servicers and do not impute liability to the lender. In *Christiana Trust v. Riddle*, the consumer alleged that the prior and current servicers of her mortgage violated the Mortgage Servicing Rules by failing to evaluate her loss mitigation application as required by 12 C.F.R. 1024.41(c)(1). Riddle contended that the original lender, Bank of America, was vicariously liable for its servicer's violation. The Fifth Circuit affirmed the dismissal of the claims against Bank of America in part because it held that "Bank of America, as a matter of law, is not vicariously liable for the alleged RESPA violations of its servicers." *Christiana Trust v. Riddle*, 2018 U.S. App. LEXIS 36217, *7 (5th Cir. Dec. 21, 2018).

In reaching its conclusion, the Fifth Circuit looked at the express language of both the Mortgage Servicing Rules and the source statute, RESPA. The Court noted that the regulation only imposes duties on servicers. *See* 12 C.F.R. 1024.41(c)(1) (if a *servicer* receives a complete loss mitigation application... a *servicer* shall...) (emphasis added). Likewise, a servicer's obligation to comply with the Mortgage Servicing Rules derives from RESPA which provides that only "a *servicer* of a federally related mortgage shall not... fail to comply with another obligation found by the Bureau of Consumer Financial Protection, by regulation, to be appropriate to carry out the consumer protection purposes of this chapter." 12 U.S.C. §2605(k)(1)(E) (emphasis added). The Court was further persuaded by the fact that 12 U.S.C. §2605 imposes liability on "whoever fails to comply with this section" rather than a more broad class of interested parties. The Court concluded that "[b]ecause only 'servicers' can 'fail to comply' with 12 U.S.C. §2605(k)(1)(E), only servicers can be 'liable to the borrower' for those failures." *Id.* at *8.

The opinion is good news for lenders as there is now some precedent that lenders cannot be held vicariously liable for their servicers' violations of the Mortgage Servicing Rules. At least in the Fifth Circuit, lenders are provided with some insulation from liability.

financial services and has been published in a number of publications including the Journal of Taxation and Regulation of Financial Institutions, California State Bar Business Law News, Banking and Financial Services Policy Report and Carolina Banker.

CONTACT US

919.250.2000
mail@smithdebnamlaw.com

RALEIGH OFFICE

The Landmark Center
4601 Six Forks Road, Suite 400
Raleigh, NC 27609

Phone: 919.250.2000
Fax: 919.250.2100

CHARLESTON OFFICE

171 Church Street
Suite 120C
Charleston, SC 29401

Phone: 843.714.2530
Fax: 843.714.2541