

**RESPA Reform
and the New Good Faith Estimate (GFE)
and Form HUD-1 (settlement statement)**



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Intentions of RESPA Reform

- Intended as a Consumer Protection act (RESPA first passed in 1974)
- Requires Greater Disclosure of Loan Terms and Settlement Fees
- Encourages consumers to shop for loan and settlement providers
- Establishes fee variance tolerances between fees quoted on GFE and Hud-1 forms (loan application and closing)

Key Features of RESPA Reform

Main components of final RESPA rule

- 3-page Good Faith Estimate (GFE)
- Disclosure of broker fees as a credit to consumer
- Tolerance limitations on settlement charges
- 3-page HUD-1 Settlement Statement
- Average charges

Other Important Features

- Title Insurance Agent and Underwriter Premium Split disclosed on Hud-1
- Lender is responsible for transmitting GFE data to settlement agent
- Lender has 30 days to cure intolerances
- New definition of Title Services

New Definition of Title Services

RESPA now defines Title Services as Any Service involved in the provision of title insurance including but not limited to:

- Title Exam and Evaluation
- Prep & Issuance of Commitment
- Prep & Issuance of Policies ...AND
- All Administrative & Processing Services required to perform these functions (e.g. document delivery, preparation & copying, wiring fees, notary fees, etc)

Key Changes to HUD-1

- Roll Up Lines
- Outside the Column Charges
- Grouping of Fees
- Page 3 HUD-1 to GFE Comparison
- Key Loan Terms

Tolerances

3 Categories of Tolerances from GFE to Hud-1

- Fees that cannot change
- Fees that cannot increase more than 10% (aggregate)
- Fees that can increase

Zero Tolerance GFE to Hud-1

- Origination Fee
- Points (or credited YSP to offset Orig Fee)
- Adjusted Origination Charges
- Transfer Taxes

Total of charges can increase up to 10% at settlement

- Required services lender select
- Title services and lender's title insurance (*if lender selects them or borrower uses companies lender identifies*)
- Owner's title insurance (*if borrower uses company lender identifies*)
- Government recording charges

Charges can change at settlement

- Required services that you can shop for (*if borrower does not use companies lender identifies*)
- Title services and lender's title insurance (*if borrower does not use companies lender identifies*)
- Owner's title insurance (*if borrower does not use companies lender identifies*)
- Initial deposit for escrow account
- Daily interest charges
- Homeowner's insurance

Document Changes

- Everyone must be compliant by Jan 1, 2010
- Some lenders may be early adopters
 - Forms will be phased in by Jan 1, 2010
 - If new GFE is used then new HUD-1 must be used

Average Pricing

Ineligible Fees

- Fees based on loan amount or property values
 - Transfer Tax
 - Interest
 - Escrow Reserves
 - Insurance Premiums (including title)
 - Provider's Own Internal Charges

Eligible Fees

- All other fees including 3rd party fees

Calculations based on specific class of transactions

- During a specific time period
 - not less than 30 days
 - not more than 6 months
 - For a specific geographical area
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- Charge may not exceed average calculation
 - Charge may not exceed TOTAL price paid to 3rd party provider
 - Originator must retain all documentation determining accuracy of pricing method for at least 3 years.

Presentation Material and Reference: www.thebestclosings.com/2010HUD





New Truth In Lending (TIL) Form

The revisions to the Truth in Lending Act (TILA) require early disclosure to the consumer and are part of the Mortgage Disclosure Improvement Act (MDIA) of 2008. The Truth In Lending Act referred to as “Regulation Z” is governed by the *U.S. Federal Reserve Board* and **NOT** by the *U.S. Department of Urban Development (HUD)*.

- The new requirements apply to all mortgages secured by a borrower’s home, including primary and second homes and refinancing. Investor loans continue to be exempt.
- Lenders must give good faith estimates of mortgage loan costs within 3 business days after the consumer applies for a loan (early disclosure).
- The lender may not collect any fees before the disclosure is provided, except for a reasonable fee for obtaining a credit report.
- The closing may not take place until expiration of a 7 day waiting period after the consumer receives the early disclosure.
- Consumers may shorten or waive the 3 day and/or 7 day waiting periods for a “bona fide personal financial emergency,” but only after receiving an accurate TILA disclosure. In the final rule’s preamble, the Fed stated that it “believes waivers should not be used routinely to expedite consummation for reasons of convenience.” The Fed decided not to insulate lenders from liability even where a consumer modifies or waives the waiting periods.
- If the annual percentage rate (APR) changes by more than 0.125 (1/8th) of a percent, the lender must provide a corrected disclosure to the borrower and wait an additional 3 business days before closing the loan. The APR includes not only the interest rate on the loan but certain other costs related to settlement, so it will be important for any fees that affect the APR to be as accurate as possible, as early as possible, to minimize the need for a corrected TILA disclosure.
- A copy of the property appraisal must be delivered to the mortgage applicant at least three days prior to closing, although borrowers may choose to waive this right. Previously, mortgage applicants had to specifically request a copy of the appraisal, and some may not have been aware of their right to do so.

Presentation Material and Reference available at: www.thebestclosings.com/2010HUD



Three Early Disclosure Examples Under the Act

Borrowers should be certain to check the initial Good Faith Estimate and Truth In Lending form and for discrepancies in charges. The new Mortgage Disclosure Information Act rules will certainly delay closings if the steps are not followed carefully.

Closings should not be scheduled until the borrower has completed the 7 day waiting period as required in the initial Truth In Lending disclosure.

Example A

- June 1st the loan application is taken;
- June 2nd the initial TIL is sent in the mail;
- June 10th the closing can occur on this day or after this day if the initial TIL was received and the APR was within the .125 of the final TIL.

Example B

- June 1st the loan application is taken;
- June 2nd the initial TIL is sent in the mail;
- June 4th the borrower's interest rate increases causing the APR to increase by more than .125 which triggers a re-disclosure of another TIL;
- June 5th the revised initial TIL is mailed to the borrower;
- June 13th is the earliest the borrower can close on the transaction (unless it falls on a Sunday then the 14th).

Example C

- June 1st the loan application is taken;
- June 2nd the initial TIL is sent in the mail;
- June 20th the borrower's interest rate increases causing the APR to increase by more than .125 which triggers a re-disclosure of another TIL;
- June 20th a revised initial TIL is mailed to the borrower;
- June 23rd the borrower receives the revised initial TIL in the mail;
- June 26th is the earliest that the borrower can close on the transaction (unless it falls on a Sunday then the 27th).

HUD's Settlement Cost Booklet:

<http://portal.hud.gov/portal/page/portal/HUD/documents/Settlement%20Booklet%20January%206%20REVISED.pdf>

HUD Form GFE:

<http://www.hud.gov/content/releases/goodfaithestimate.pdf>

HUD Form HUD-1

<http://www.hud.gov/offices/adm/hudclips/forms/files/1.pdf>

HUD Form HUD-1

<http://www.hud.gov/offices/hsg/ramh/res/hud1.pdf>