

New Federal Mortgage Lending Regulations Can Help You Get a Better Mortgage

On the first day of January 2010, consumers shopping for mortgage loans will have new protections against unexpected and unreasonable fees. The federal government has issued regulations that require lenders to provide potential borrowers with more accurate information about what their mortgage loan will cost, and that prevent lenders from raising certain fees during the application process. If a loan originator overcharges you, you now have meaningful recourse by taking the originator to small claims court or civil court and by reporting the originator to HUD's RESPA enforcement office.

But to take full benefit of the new rules, you need to understand them. This fact sheet provides you with an overview of the new regulations and offers tips on how to use them to get the best priced loan that you are eligible for .

What are the new required disclosure forms?

The new federal regulations require mortgage lenders to provide loan applicants with two documents that detail the costs of the loan: the Good Faith Estimate (GFE) and the settlement statement (commonly referred to as a "HUD-1"). The lender must provide a prospective borrower with a GFE not more than three days after the borrower submits a loan application. The settlement statement is given to the prospective borrower twenty-four hours before the loan closing.

Versions of these forms have been required for more than thirty years. But the new forms are standardized, and present information in a way that is easy to understand and use to make comparisons. This makes it almost impossible for lenders to use different versions of the forms to confuse consumers.

What information does the Good Faith Estimate (GFE) provide?

The new Good Faith Estimate (GFE) includes a section that summarizes the cost of your loan, including the amount, the term, and the interest rate. If the interest rate can change during the life of the loan, the GFE provides some information about what changes can occur, and what they might cost. This section also includes information about any "prepayment penalties" – extra fees that a borrower has to pay if she or he decides to pay off the loan before it is due.

The GFE also includes a list of the "settlement costs" associated with the loan. These are services that need to be carried out for a loan to close. Typical settlement costs include the property appraisal, a termite inspection, lender and owner title insurance, flood insurance and similar costs.

A third section of the GFE breaks down the cost of the loan in a way that makes it easy to compare with loans offered by other lenders.

You can view or download a copy of the new GFE by clicking *here*.

What information does the new settlement statement (HUD-1) provide?

The settlement statement (HUD-1) lists the final costs of the loan that the borrower will pay at the loan closing. The new HUD-1 form includes a table that allows you to map the loan costs listed in the GFE with the final closing costs to be certain the numbers match.

The table that compares the costs presented in the GFE with the final costs is important because the new federal rules limit the extent to which loan costs can change during the application process. This is a very important consumer protection, because many lenders previously abused their ability to make changes in the cost of a loan just before the closing, when the borrower is least able to “just say no” and walk away from the loan if it is different than what he or she was promised previously.

Before the new rules took effect, lenders could provide a loan applicant with information about the interest rate and fees associated with the loan in the Good Faith Estimate, but increase the fees and/or interest rate just before the loan closing. The borrower would learn of the increases only when she or he received the settlement statement. The new rules prohibit “bait and switch” practices of this sort.

You can view or download a copy of the new HUD-1 by clicking *here*.

Can the lender increase any of the loan costs listed on the GFE?

Yes. The GFE and new settlement statement distinguish between three types of costs. Costs fully under the lender’s control, including the interest rate and all origination fees (commonly known as “points”), cannot change from the time that the lender provides the borrower with the latest GFE to the closing.

Costs that the lender has considerable but not full control over are allowed to increase between the GFE and the final settlement statement by up to 10%. These include settlement services provided by vendors selected by the lender, and services provided by vendors from a list that the lender provides to the borrower. (The lender is required to provide the borrower with a list of recommended vendors for specific settlement services.)

There is no limit to changes to fees that are not under the lender’s control, such as settlement services provided by a vendor that the borrower selects independently of the lender’s menu of suggested providers.

The different types of costs are broken out in the GFE and the Settlement Statement in a way that makes it easy to tell which is which.

The regulations only allow lenders to increase costs on the GFE by more than the limits discussed above in the event of “changed circumstances.” Briefly stated, changed

circumstances are acts of God, new information, changed information or other information. For example, an appraisal report determining that the property value is less than thought or unverifiable income from the loan application would be considered changed circumstances. This may cause the loan pricing to change and require a new GFE to be issued within 3 business days of when the lender learned of the changed circumstances.

What happens if the lender increases costs in a way prohibited by the new regulations?

If a lender increases the first set of costs (those under its full control) at all, or increases the second set of costs (those largely under its control), the borrower is due a refund. If the lender does not make refund within thirty days, the borrower can take the lender to small claims court.

Does it make sense for me to use my own settlement service providers?

Because costs listed on the GFE cannot change by more than 10% if the applicant uses a settlement service vendor from the list provided by the lender, it makes sense for applicants to consider using these vendors. One strategy to ensure the best cost would be for the applicant to get a price quote from a vendor not on the lender's list, and then ask vendors from the lenders list to match the quote.

How do I use the new GFE and settlement statements to shop for a better mortgage?

The GFE provides a "Trade-off Table" that breaks down the costs of the loan in a way that allows them to be compared with other loans. The lender is required to provide information about the loan that it is offering, but it is up to the applicant to fill in the other boxes on the table with information about other loans, and to make the necessary calculations.

The Fair Mortgage Collaborative's contractor, Mortgage Grader, has created a website, www.TradeoffTable.com, which provides an easy way to enter information about different loans and compare their costs.