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HUD Unveils New Rules for Mortgages

By JAMES R. HAGERTY

The Department of Housing and Urban Development announced rules aimed at helping Americans shop for mortgages more effectively, but said it lacks powers to enforce those rules.

The rules update requirements of the Real Estate Settlement Procedures Act, known as Respa, a 1974 law that sets standards for home-purchase transactions. HUD Secretary Steve Preston said changes were needed because "many people made uninformed decisions" in taking out loans. That, he said, contributed to a surge in mortgage defaults.

HUD, which pushed ahead with the rules despite opposition from lenders and others involved in mortgage transactions, estimated the changes will bring savings of nearly \$700 in loan-closing costs for the typical consumer.

In a news conference, HUD officials conceded they lack legal authority to penalize violators of the rule. Legislation would be required to give HUD those powers. But they said state and federal regulators of lenders and brokers can insist on compliance with federal rules and that the threat of class-action suits may keep lenders in line.

The rules require a three-page "good-faith estimate" for borrowers explaining rates, fees, any prepayment penalties and the possibility of later increases in monthly payments. HUD said it shrank that form from four pages to three in response to industry complaints.

The rules also limit to 10% the maximum amount certain fees can increase from the initial estimate. A new HUD-1 form, provided to consumers before they sign loan documents, is designed to help consumers more easily compare what they were promised with what they are actually being charged. One problem is that consumers may see that HUD-1 form only shortly before the closing, when they are pressed for time and may feel it is too late to resume their mortgage shopping.

HUD said the rules will help consumers understand how much a broker is being

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paid in fees, often called "yield spread premiums." But Rebecca Borne, a lawyer at the Center for Responsible Lending, a nonprofit group pushing for changes in mortgage regulation, said the new HUD forms fail to make those fees clear and won't prevent abuses of them.

Lenders and brokers will have until Jan. 1, 2010, to start using the forms. HUD dropped a provision that would have required a lengthy "script" to be read to borrowers at the closing table, setting out terms of the loan.

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