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HUD ISSUES NEW MORTGAGE RULES TO HELP CONSUMERS SHOP FOR LOWER COST HOME LOANS

New 'Good Faith Estimate' will help borrowers save nearly \$700

WASHINGTON - For the first time in more than 30 years, the U.S. Department of Housing and Urban Development today issued long-anticipated mortgage reforms that will help consumers to shop for the lowest cost mortgage and avoid costly and potentially harmful loan offers. HUD will require, for the first time ever, that lenders and mortgage brokers provide consumers with a standard *Good Faith Estimate (GFE)* that clearly discloses key loan terms and closing costs. HUD estimates its new regulation will save consumers nearly \$700 at the closing table.

In announcing HUD's final changes to the regulatory requirements of the *Real Estate Settlement Procedures Act (RESPA)*, HUD Secretary Steve Preston said that changes in the housing market and increases in home foreclosures demands action. (Read Preston's remarks)



"It has been a long road but today we can finally announce a better way to buy homes in America," said Preston. "Consumers need and deserve to know what they're getting themselves into before they sign on the dotted line. After carefully considering the concerns of consumers and the different businesses in the housing sector, we have developed an approach that empowers the average family to shop for the most appropriate loan to meet their needs."

Last March, HUD proposed reforms to the longstanding regulatory requirements of the *Real Estate Settlement Procedures Act (RESPA)* by improving disclosure of the loan terms and closing costs consumers pay when they buy or refinance their home. Last May, HUD extended the rule's comment period to June 12th to allow for more opportunity for comment on the Department's proposed GFE form.

Brian Montgomery, HUD's Assistant Secretary of Housing, Federal Housing Commissioner, said, "We have carefully considered the concerns expressed from every corner of the mortgage market in developing this rule. I am convinced that we successfully balanced the needs of consumers with those in the business of homeownership. None of us can lose sight of the fact that millions of Americans simply don't understand all the fine print of their mortgages and this, in many respects, is at the heart of today's mortgage crisis."

Since 1974, little has changed about the process Americans endure when they buy and refinance their homes. Now, HUD's final reform will improve disclosure of the

key loan terms and closing costs consumers pay when they buy or refinance their home.

HUD received approximately 12,000 comment letters following the proposal of its new RESPA rule. In considering those comments, the Department made considerable modifications to its proposal. For example, HUD originally proposed that settlement agents read a closing script at the closing table and that a copy be provided to borrowers. HUD ultimately discarded the script in favor of a new page on the HUD-1 Settlement Statement that allows consumers to easily compare their final loan terms and closing costs with those listed on their *Good Faith Estimate*.

Most industry commenters said HUD's proposed four-page GFE was too long. HUD shortened the GFE form to three pages including an instructional page to help borrowers understand their loan offer. HUD continues to believe that consumers need to be aware of the key aspects of their loan as well as associated settlement costs.

HUD agreed with many commenters who suggested the new GFE allow consumers to compare their estimated closing costs with the actual costs included on their HUD-1 Settlement Statement. To facilitate comparison between the HUD-1 and the GFE, each designated line on the final HUD-1 will now include a reference to the relevant line from the GFE. Borrowers will now be able to easily compare their estimated and actual costs in very much the same manner as many of the commenters suggested.

HUD will require the new standardized GFE and HUD-1 beginning January 1, 2010. To view these documents, click on the following links:

HUD's standard Good Faith Estimate
HUD-1 Settlement Statement

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HUD is the nation's housing agency committed to increasing homeownership, particularly among minorities; creating affordable housing opportunities for low-income Americans; and supporting the homeless, elderly, people with disabilities and people living with AIDS. The Department also promotes economic and community development, and enforces the nation's fair housing laws. More information about HUD and its programs is available on the Internet at www.hud.gov and espanol.hud.gov. For more information about FHA products, please visit www.fha.gov.

Fact Sheet on HUD's final RESPA Rule

- For the first time ever, HUD will require mortgage lenders and brokers to provide borrowers with an easy-to-read standard *Good Faith Estimate* (GFE) that will clearly answer the key questions they have when applying for a mortgage including:
 - What's the term of the loan?
 - Is the interest rate fixed or can it change?
 - Is there a pre-payment penalty should the borrower choose to refinance at a later date?
 - Is there a balloon payment?
 - What are total closing costs?
- HUD estimates that by improving upfront disclosures on the GFE, and limiting the amount estimated charges can change, consumers will save nearly \$700 in total closing costs.
- Based on substantial public comment, HUD withdrew a proposed

requirement that closing agents read and provide a 'closing script' to borrowers in favor of a new page on the HUD-1 Settlement Statement that allows consumers to easily compare their final closing costs and loan terms with those listed on the GFE.

- HUD's new *Good Faith Estimate* has been reduced from four to three pages, including an instructional page to help borrowers better understand their loan offer. In addition, the GFE will consolidate closing costs into major categories to prevent junk fees and display total estimated settlement charges prominently on the first page so the consumer can easily compare loan offers. HUD will specify the closing costs that can and cannot change at settlement. If a fee changes, HUD will limit the amount it can change.
- To help borrowers compare their *Good Faith Estimate* with their HUD-1 Settlement Statement, each designated line on the final HUD-1 will now include a reference to the relevant line from the GFE. Borrowers will now be able to easily compare their estimated and actual costs in the same manner many commenters suggested.
- HUD will require lender payments to mortgage brokers (often called Yield Spread Premiums) to be disclosed in a more meaningful way. These payments are directly dependent on the interest rates that consumers agree to. To ensure that HUD's new requirement will not create a consumer bias against brokers, the Department did rigorous consumer testing and found the new *Good Faith Estimate* helped consumers to select the lowest cost loan nine-out-of-10 times, regardless of whether the loan was originated by a lender or a broker.
- Loan originators will be required to provide borrowers their *Good Faith Estimate* three days after the loan originator's receipt of all necessary information. To facilitate shopping, loan originators could not require verification of GFE information (tax returns etc.) until after the applicant makes the decision to proceed.
- HUD will allow lenders and settlement service providers to correct potential violations of RESPA's new disclosure and tolerance requirements. Lenders and settlement service providers will now have 30 days from the date of closing to correct errors or violations and repay consumers any overcharges.
- The new, standardized GFE and revised HUD-1 will not be required until January 1, 2010.

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