

## Real Estate Settlement and Procedures Act

What does it mean to my business?

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### Impact on Borrowers

HUD believes the RESPA rule change will:

- › Educate Borrowers
- › Encourage Borrowers to Shop Lenders
- › Increase competition between lenders thereby reducing costs for borrowers



### Impact on Lenders

- › Changes impact the GFE and the HUD 1
- › The New GFE and HUD -1 will be:
  - Standard forms regardless of the lender
  - Three Pages Long

Applicable to:

- First Mortgages
- Second Mortgages
- Construction to Permanent Loans

### Binding GFE Rules—The new GFE:

- › No Longer Displays total cash to close
- › Borrowers down payment does not appear
- › Does not differentiate between borrower, lender and seller fees
- › Does not contain total payment
- › Is a binding document
- › Fundamental change no longer “just an estimate”
- › Lenders are accountable for variances if certain fees increase between GFE and Final HUD

### Binding GFE Rules

- › The lender is bound, under certain circumstances and within certain tolerances, to the fee amounts that appear on the GFE.
- › New rules for binding GFEs include:
- › When lenders must issue GFE
- › Definition of a “Changed Circumstance” that permits lenders to issue a revised GFE
- › GFE Tolerances
- › Penalties for exceeding GFE Tolerances

### Issuing a GFE

- › Lenders must provide a GFE within three days of customers making an application for a loan
- › These elements are necessary for a mortgage application and require the lender to issue a GFE
  - › \*Borrower Name      \* Loan Amount
  - › \*Income                \* Credit Score
  - › \*Property Address   \* Property Value
  - › \*Social Security Number

### Issuing a GFE

- › The lender is bound, within certain tolerances to the fee amounts that appear on the GFE for 10 business days after issuing a GFE or when the borrowers agree to proceed with (register ) the loan application
- › During the shopping phase, changed circumstances (i.e. loan amount, subject property address etc.) may occur that permit the lender to issue a revised GFE

### Changed Circumstances

- › Lenders can restate or reissue a new, binding GFE only if changed circumstances are associated with the application
- › If changed circumstances are associated with the application and there is an increase to the fees related to the change, the lender must reissue the GFE within three days if the lender wants to rely on the new estimate

### Changed Circumstances

- › Borrower Requested Change
- › Expired GFE
- › Interest Rate Lock
- › Borrower Eligibility
- › Acts of God, War, Disaster or other Emergency

### What Can Change

- › Only Fees impacted by “Changed Circumstance”
- › Pricing due to change
- › Borrower requested change
- › Float to Lock situation
- › Block 1 Cannot change even with a changed circumstance WHY..... Exception loan amount is a percentage

### New HUD 1 Notable

- › Document is 3 pages long
- › 3<sup>rd</sup> page displays side by side comparison of the fees displayed on last binding GFE issued by the lender
- › If a fee is typically paid by the borrower, it will remain listed on the borrower side regardless of who is paying the fee. Payment from the seller for the fee is reported as a credit on page 1 of the HUD. It is not acceptable to flip a charge into the seller's column if the fee is typically paid for by the buyer

### GFE Fee Tolerances

- › The new GFE divides fee estimates into three categories. The distinction between these categories is the allowable variance or difference between the fee estimate on the GFE and the actual charge on the HUD 1
- › No Variance
- › 10 % Variance
- › Unlimited Variance

### **Penalties**

- ▶ Lenders are required to correct fee tolerance violations
- ▶ Lenders may cure the violation by reimbursing for the amount which it exceeded the tolerance to avoid a violation of RESPA section 5
- ▶ The lender has 30 calendar days from settlement to complete the reimbursement process