

# RESPA Reform

*A guide to understanding the new requirements and corresponding impacts*

As the mortgage industry continues to implement changes that help provide customers the essential information and adequate time to understand their home purchase or refinance options, it's our goal to continue to keep consumers – and of course you, our industry colleagues – informed.

A few months ago, we reached out across the United States to educate individuals and organizations on the timeline impacts resulting from the May 2009 Home Valuation Code of Conduct (HVCC) changes, and the Housing and Economic Recovery Act (HERA) requirements that took effect July 30, 2009. Now we're reaching out to provide you with details regarding what is known as **RESPA** (Real Estate Settlement Procedures Act) **Reform**.

## What is RESPA Reform?

RESPA Reform was enacted by the U.S. Department of Housing and Urban Development (HUD) with the intent to help protect borrowers applying for home financing by standardizing the industry and:

- providing for a more thorough explanation and disclosure of key loan terms and settlement charges [via revisions to the Good Faith Estimate (GFE) and Settlement Statement (HUD-1)];
- including a side-by-side chart (on the new page 3 of the HUD-1) to help compare the estimated charges shown on the GFE with the actual charges at closing; and
- requiring that fees not increase between issuance of the GFE and closing except under limited circumstances.

## RESPA Reform:

- ▶ *Applies to all lenders and mortgage brokers*
- ▶ *Mandatory by January 1, 2010*
- ▶ *Wells Fargo Home Mortgage will implement for all new applications with a property identified beginning mid-December 2009*

Together we'll go far



# RESPA Reform

## *The goal: more informed customers*

The objective of the many new government requirements that relate to home financing is to provide information that can help every home buyer or owner make better home financing decisions.

For example:

- ▶ **HVCC** – ensures that borrowers have sufficient notice of appraisal content and promotes the accuracy of appraisals by shielding appraisers from undue influence;
- ▶ **HERA Mortgage Disclosure Improvement Act (MDIA)** – protects borrowers by making them more informed and confident in their home financing choices by specifying timing in regard to initial disclosures, fee collection and final disclosures; and
- ▶ **RESPA Reform** (the most recent government requirement) – intends to help borrowers avoid surprises at closing by placing tolerance levels on all charges for services associated with obtaining the mortgage where the vendor is not borrower-selected.

## *The impacts: changes to the transaction*

Certainly, the May 2009, HVCC and the July 2009, HERA MDIA requirements may both impact the loan closing timeline. RESPA Reform may also influence the timeline and certainly has many process impacts for lenders, settlement agents and attorneys. However, the transaction experience for the consumer and other parties should remain relatively unchanged.

## Details on three of the new RESPA Reform requirements and corresponding impacts:

### **1** New RESPA Reform GFE

Beginning January 1, 2010, HUD will require all lenders and mortgage brokers to provide borrowers with the new RESPA Reform GFE on any application that is taken on or after January 1, 2010 with a property identified. Additionally, settlement agents and attorneys will be required to provide borrowers with the new RESPA Reform HUD-1 settlement statement that closely aligns with the new GFE.

Each lender can decide if or when to implement the new form prior to the required date of January 1, 2010. **Wells Fargo Home Mortgage will require the new GFE to be used for any application that is taken beginning mid-December 2009 with a property identified.** For any loan where the new GFE form is used, the new HUD-1 form must also be used, even if the closing is prior to January 1, 2010. Therefore, we will be working closely with settlement agents and attorneys to ensure adherence.

### **REALTOR®/Builder impacts:**

The new GFE should not impact how you do business and should help your buyers avoid surprise charges at settlement, have the ability to shop for the best loan, and ultimately feel more comfortable with their decision.

# RESPA Reform, continued

So that you are familiar, we have detailed what each page consists of and also provided visuals of the new GFE below.

## Page 1:

Summarizes key loan information, details escrow information and displays the total estimated settlement charges associated with obtaining the mortgage so the borrower can compare loan terms.

The image shows the top portion of a Good Faith Estimate (GFE) form. It includes the Wells Fargo logo, the title "Good Faith Estimate (GFE)", and the reference "CMB Approval No. 2003-0265". Below the header is a form with fields for "Name of Originator", "Originator's Address", "Originator's Phone Number", "Originator's Email", "Business", "Property Address", and "Date of GFE".

## Page 2:

Estimates total settlement charges associated with obtaining the mortgage, breaking them down into 11 blocks of charges. (Note: the GFE does not provide a figure that represents the downpayment or the cash the borrower will need to bring to closing.)

This section of the GFE form is titled "Understanding your estimated settlement charges". It contains several tables and sections:
 

- Your Adjusted Origination Charges:** A table with 4 rows:
  - Our origination charge:** "The charge is for getting this loan for you." Includes checkboxes for "The add-on charge for the interest rate of [ ]% is included in 'Our origination charge.' (See item 1 above)", "You receive a credit of \$ [ ] for this interest rate of [ ]% (This credit **reduces** your settlement charges)", and "You pay a charge of \$ [ ] for this interest rate of [ ]% (This charge **increases** your total settlement charges)".
  - Your credit or charge (points) for the specific interest rate chosen:** Similar to item 1.
  - Your Adjusted Origination Charges:** A summary row with a dollar amount.
  - Your Charges for All Other Settlement Services:** A table with 4 rows:
    - Required services that we select:** "These charges are for services we require to complete your settlement. We will choose the providers of these services." Includes columns for "Service" and "Charge".
    - Title services and lender's title insurance:** "This charge includes the services of a title or settlement agent, for..."
- Some of these charges can change at settlement. See the top of page 3 for more information.**

## Page 3:

Is an instructional page designed to help borrowers understand their loan and its associated fees. Borrowers can use the shopping guide to document and compare charges from other lenders.

### Instructions

Understanding which charges can change at settlement

This GFE estimates your settlement charges. At your settlement, you will receive a HUD-1, a form that lists your actual costs. Compare the charges on the HUD-1 with the charges on this GFE. Charges can change if you select your own provider and do not use the companies we identify. (See below for details.)

These charges <b>cannot increase</b> at settlement	The <b>total</b> of these charges <b>can increase up to 10%</b> at settlement	These charges <b>can change</b> at settlement
<ul style="list-style-type: none"> <li>Our origination charge</li> <li>Your credit or charge (points) for the specific interest rate chosen (after you lock in your interest rate)</li> <li>Your adjusted origination charges (after you lock in your interest rate)</li> <li>Transfer fees</li> </ul>	<ul style="list-style-type: none"> <li>Required services that we select</li> <li>Title services and lender's title insurance (if we select them on your behalf, you use companies we identify)</li> <li>Owner's title insurance (if you use companies we identify)</li> <li>Required services that you can shop for (if you use companies we identify)</li> <li>Government recording charges</li> </ul>	<ul style="list-style-type: none"> <li>Required services that you can shop for (if you do not use companies we identify)</li> <li>Title services and lender's title insurance (if you do not use companies we identify)</li> <li>Owner's title insurance (if you do not use companies we identify)</li> <li>Initial deposit for your escrow account</li> <li>Daily interest charges</li> <li>Homeowner's insurance</li> </ul>

**Using the tradeoff table**

In this GFE, we offered you this loan with a particular interest rate and estimated settlement charges. However:

- If you want to choose the same loan with **lower settlement charges**, then you will have a **higher interest rate**.
- If you want to choose the same loan with a **lower interest rate**, then you will have **higher settlement charges**.

If you would like to choose an available option, you must ask us for a new GFE.

Loan originators have the option to complete this table. Please ask for additional information if the table is not completed.

	The loan in this GFE	The same loan with lower settlement charges*	The same loan with a lower interest rate
Your initial loan amount	\$	\$	\$
Your initial interest rate <sup>†</sup>	%	%	%
Your initial monthly amount owed	\$	\$	\$
Change in the monthly amount owed from this GFE	No change	You will pay \$ <b>more</b> every month	You will pay \$ <b>less</b> every month
Change in the amount you will pay at settlement with the stated rate	No change	Your settlement charges will be <b>reduced</b> by \$	Your settlement charges will <b>increase</b> by \$
How much your total estimated settlement charges will be	\$	\$	\$

<sup>†</sup> For an adjustable rate loan, the comparison above is for the initial interest rate. Before adjustments are made.

**Using the shopping chart**

Use this chart to compare GFEs from different loan originators. Fill in the information by using a different column for each GFE you receive. By comparing loan offers, you can shop for the best loan.

	This loan	Loan 2	Loan 3	Loan 4
Loan originator name				
Initial loan amount				
Loan term				
Initial interest rate				
Initial monthly amount owed				
Rate lock period				
Can interest rate rise?				
Can loan balance rise?				
Can monthly amount owed rise?				
Prepayment penalty?				
Ballon payment?				
<b>Total Estimated Settlement Charges</b>				

**If your loan is sold in the future**

Some lenders may sell your loan after settlement. Any fees lenders receive in the future cannot change the loan you receive or the charges you paid at settlement.

Good Faith Estimate (HUD-GFE) 3

Wells Fargo Home Mortgage will provide every customer with a cover letter and proprietary instructional booklet titled, "A Guide to Understanding Your Good Faith Estimate."



# RESPA Reform, *continued*

## 3 Timeline impact

In the event the HUD-1 shows an increase in a charge\* (to a lender and/or third-party fee) versus what was reflected on the latest GFE, the closing may be delayed. The lender will need time to work with the settlement agent or attorney to determine if the change requires a revision to the GFE. If a new GFE is required, it must be provided to the borrower within three business days of Wells Fargo Home Mortgage's notice of the changed circumstance **AND at least one business day prior to closing**. This way the borrower can review/understand the increased charge(s) prior to closing. Therefore, it is crucial for REALTORS® or Builders to inform Wells Fargo Home Mortgage immediately if you become aware of anything that may cause fees to increase. **NOTE:** Due to the previously implemented HERA Mortgage Disclosure Improvement Act, the closing delay may be extended up to seven business days if/when the increased charge(s) causes the APR to increase by more than .125%.

### *\*Example of allowable fee increase:*

A fee increase can only be charged to the borrower if it occurred due to what HUD refers to as a “valid changed circumstance.” For example, if the borrower chooses to make a significant change to his or her loan (such as a product change) or if a full review of the appraisal results in discovery that a survey is required, a “valid changed circumstance” has occurred, and the associated fee increases can be charged to the borrower (if a new GFE is properly issued that reflects the new fees). Another example is if a power of attorney is needed for a borrower who cannot attend closing.

### **REALTOR®/Builder impacts:**

In the event a revised GFE must be provided to the borrower, then the borrower must be allowed at least one business day to review it prior to closing. If the APR increases more than .125%, the Truth in Lending (TIL) disclosure must be reissued (we call it a PreClosing TIL) at least seven business days prior to closing. This allows three business days for mailing and provides the customer with the time required to determine if they are comfortable with their loan decision. (You can be assured we'll do everything we can to expedite the delivery.)

For your buyers, there may be some frustration over the course of the transaction if they receive multiple GFEs due to revisions. It is important to always refer to the most recent GFE they have received for up-to-date details and to help avoid surprises. At closing, the opportunity for the buyers to compare the fees between the GFE and the HUD-1 should be simpler.

The descriptions above are based on Wells Fargo Home Mortgage's interpretations and processes around RESPA Reform. REALTORS, Builders and settlement service providers should consult with their own attorneys about direct impacts to their business.