

# Are You Ready For Some RESPA Reform?

## An Overview Of The New Regulations

New, sweeping changes regulating how lenders, closing attorneys and title companies disclose loan and closing costs are set to go into effect January 1, 2010. The new regulations are part of a long awaited reform to the 30 year old Real Estate Settlement Practices Act known as RESPA aimed at providing greater transparency and fostering better consumer choice in loan and closing costs. The changes are so significant that HUD recently took the unusual step of giving lenders a [120 day reprieve in enforcing the new regulations](#).

The major components of the new RESPA reform are the new and substantially revised Good Faith Estimate (GFE), in which lenders disclose loan and closing costs to borrowers, and the HUD-1 Settlement Statement, which is a detailed financial breakdown of the entire real estate transaction signed at closing.



Highlights of the new changes include:

- Borrowers must receive a standard GFE disclosing key loan terms, including the loan's terms; whether the interest rate is fixed or otherwise; any prepayment penalties and/or balloon payments; and total closing costs.
- Lenders must provide borrowers with a standard origination charge for the loan which must include all points, appraisal, credit, and application fees, administrative, lender inspection, wire, and document preparation fees
- Lenders have the option of providing borrowers with a list of approved service providers such as closing attorneys and title insurance companies.
- A tolerance range has been specified for various categories of loan/closing costs to prevent unnecessary escalation of promised vs. actual charges.
  - Fees quoted for lender origination charge cannot change.
  - Fees for title and closing costs where the lender selects the provider or where the borrower selects the provider from the lender's approved list cannot change by more than 10%.
  - Fees that borrowers can shop for themselves can increase (or decrease) by any amount.
- The final page of the GFE contains worksheet-like charges to compare different loans and terms that the borrower can use to shop pricing.
- Controversial lender payments to mortgage brokers, known as yield-spread premiums, must be disclosed in a standard manner.
- The charges quoted on the GFE are then carried over to the HUD-1 Settlement Statement to ensure that the prescribed tolerances are met.

Here is a link to the new [Good Faith Estimate \(GFE\) form](#) and a link to the new [HUD-1 Settlement Statement](#) form. The most recent FAQ from HUD can be found [here](#).

I think that overall the changes will provide consumers with greater disclosure and transparency of the myriad loan closing fees and costs in a typical real estate purchase. It also creates an incentive for lenders to assemble a competitively priced team of preferred settlement service providers, so it can guarantee to its customers that the price of the preferred vendors' settlement services will never increase by more than 10% at closing. If borrowers aren't happy with that, they are free to shop and find a better deal themselves.

I plan to do a series of upcoming posts on this important RESPA reform, highlighting the salient sections of the new GFE and HUD-1.

© [Richard D. Vetstein, Esq.](#) November 17, 2009