



stewart briefs

RESPA reform leads to a remarkably different HUD-1.

By: Deborah Yahner, Underwriting Counsel,
Stewart Title Guaranty Company

Recently, the only constant in the real estate industry has been change – and that’s not going to change any time soon. The latest challenge facing the industry is a result of reforms made to RESPA, or the Real Estate Settlement Procedures Act. RESPA was modified in 2008 to provide consumers a greater ability to shop for the best loan by simplifying the process and allowing borrowers to compare the Good Faith Estimate (GFE) issued by the lender (estimating the costs to close) with a new HUD-1/1A (the closing statement documenting the actual costs at closing).

The RESPA changes apply to all 1-4 family residential transactions with institutional lender financing. The new HUD-1 does not need to be used for cash transactions, seller financed transactions, loans from private sources, and transactions with 25 acres of land or more. HUD-1 is also not used for commercial transactions such as a warehouse, six-plex, commercial building or strip center.

All lenders and title agencies are required to meet the new RESPA regulations beginning January 1, 2010. However, lenders may begin using the new GFE at any time, and if a new GFE is issued to a borrower, the title agency must use the new HUD-1 for that transaction.

The relationship between the new Good Faith Estimate and HUD-1

Previously, there had never been a standardized form for the GFE – creating a standardized version of this form will be of great benefit to borrowers. The amended HUD-1 was created to work with the revised GFE and has references on most lines to the corresponding area of the GFE for easier comparison of the two. A new third page on the HUD-1



includes a chart comparing the amounts listed for particular settlement costs estimated on the GFE with the actual costs for those same charges listed on the HUD-1. Additionally, there is a section that clearly lays out the terms of the borrower’s loan, which should go a long way toward helping consumers avoid agreeing to terms they cannot meet.

RESPA reform leads to a remarkably different HUD-1.

Loan originators, defined as the lender or mortgage broker working directly with the borrower, must provide all the information necessary to complete the comparison chart and loan terms disclosure on the new third page.

Introducing tolerance levels for consumer protection

To further protect consumers, the RESPA reform establishes tolerance levels for changes to costs laid out in the GFE so that no consumer will have to pay a wildly different amount for their actual closing costs than those previously detailed in the Good Faith Estimate. Three separate categories of tolerance levels were created.

The first category, charges that cannot change from the GFE to the HUD-1, includes the borrower's origination charge, credit or charge for interest rate selected, the adjusted origination charge and transfer taxes. The second category, charges that can increase in aggregate no more than 10%, includes title services, lender's title insurance, appraisals, credit reports, tax service and flood certification where the lender selects or identifies the provider for these services as well as mortgage insurance premium and recording charges. The third category, charges that can increase with no cap, includes the initial deposits for escrow reserves, daily interest charges, homeowners insurance and lender-required services where the borrower shops for and selects their own third-party provider, and services the borrower chooses to have that are not required by the lender.



The rule requires the GFE settlement charges remain available for 10 business days to allow the borrower to comparison shop with other loan originators. The GFE may be revised and reissued (in which event there could be increases in the charges) prior to settlement due to certain "changed circumstances". The HUD defines these circumstances as acts of God, war, disaster or other emergency; information about the borrower or transaction that changes or is found to be inaccurate after the issuance of the GFE (e.g., credit quality, loan amount, property value or other information); newly found information that was not previously relied upon as well as other possible circumstances.

Visit stewart.com/agency services for more information about the RESPA reform.