

# Lend Me An Ear

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One of the most fun things I do as an attorney is host real estate closings. Everybody walks away happy – the sellers have a big check in hand, while the buyers have the keys and garage door openers to their new dream home.

To get to that point, we typically have the buyers sign lots and lots of loan documents. Before digging in to all of these documents, one of my good friends who also hosts closings always tells the buyers that, “these documents are really only important if you don’t plan on making all of your loan payments.”

Most loan packages are about a half an inch thick, with dozens and dozens of pages containing thousands of words in tiny print. It can be a little tricky to find the crucial terms of the loan, so we go over the documents very carefully to catch them all.

Many attribute the current mortgage crisis to borrowers’ inability to comprehend draconian loan documents. To combat this, the U.S. Department of Housing and Urban Development (HUD) recently issued reforms to the Real Estate Settlement Procedures Act (RESPA) to allow consumers to easily shop for the lowest cost mortgage.

HUD also introduced the new regulations because of the depressed housing market and the country’s increase in home foreclosures. The federal government created HUD to increase home ownership, particularly among minorities; create affordable housing opportunities for low-income Americans; and support the homeless, elderly, people with disabilities and people living with AIDS. The agency also promotes economic and community development, and enforces the nation’s fair housing laws.

Under the new reforms, for the first time HUD will require lenders and mortgage brokers to provide consumers with a standard Good Faith Estimate (GFE) that clearly discloses key loan terms and closing costs. HUD officials estimate the new regulations will save nearly \$700 in closing costs.

The standard GFE form will be easy to read and will clearly answer consumers’ key questions when applying for a mortgage including:

- What’s the term of the loan?
- Is the interest rate fixed or variable?
- Is there a pre-payment penalty for refinancing down the road?
- Is there a balloon payment?
- What are total closing costs?

The GFE form will be three pages, including an instructional page, to help borrowers understand their loan offer. The GFE is designed to allow consumers to compare their estimated closing costs with the actual costs included on their HUD-1 Settlement Statement. To do so, the HUD-1 has been revamped so each line on it will now include a reference to the relevant line from the GFE. Both the new GFE and the updated HUD-1 must be used starting on January 1, 2010.

Before adopting the reforms, HUD invited comments on their proposed changes. After receiving approximately 12,000 comment letters, HUD modified the reforms to incorporate suggestions from consumer protection groups and also mortgage brokers and lenders.

While the addition of the new form will make closings a little longer, it’ll be worth it if borrowers better understand what they’re getting themselves into.

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