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To: Clients and Friends

From: David F. Dulock

Subject: RESPA: Proposed Rule to amend Regulation X (Federal Register, March 14, 2008, Pages 14030-14124).

This memorandum revises and replaces our April 14, 2008 memorandum on this subject. On March 14, 2008, the Department of Housing and Urban Development ("HUD") published a proposed rule to amend Regulation X. If HUD adopts this rule, as proposed, it will have a significant impact on mortgage lending and closing practices.

Overview of Proposed Rule:

The proposed rule is intended to: (i) revise and standardize the Good Faith Estimate (GFE); (ii) ensure that page one of the GFE provides a clear summary of the loan terms and total settlement charges; (iii) provide more accurate estimates of costs of settlement services shown on the GFE; (iv) improve disclosure of yield spread premiums; (v) facilitate comparison of the GFE and the HUD-1/HUD-1A Settlement Statements; (vi) ensure that at settlement borrowers are made aware of final loan terms and settlement costs, by reading and providing a copy of a closing script to borrowers; (vii) clarify HUD-1 instructions; (viii) clarify regulations concerning discounts; and (ix) expressly state when RESPA permits certain pricing mechanisms, including average cost pricing and discounts, and volume based discounts.

Text of Proposed Rule:

The text of the proposed rule can be printed by clicking on:

<http://a257.g.akamai.tech.net/7/257/2422/01jan20081800/edocket.access.gpo.gov/2008/pdf/08-1015.pdf>

Public Comment Period:

We urge you to send comments on the proposed rule. **HUD must receive your comments no later than June 12, 2008.** You may submit comments, identified by **Docket No. FR-5180-P-01** and title of the proposed rule, Real Estate Settlement Procedures Act (RESPA): Proposed Rule To Simplify and Improve the Process of Obtaining Mortgages and Reduce Consumer Settlement Costs, by either of the following methods:

1. Mail: Comments may be mailed to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 Seventh Street, SW., Room 10276, Washington, DC 20410-0001.

2. Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions provided on that site to submit comments electronically.

Note: To receive consideration, comments must be submitted through one of the two methods specified above. All comments must refer to the docket number and title of the proposed rule. Facsimile (FAX) comments are not acceptable.

Summary of Proposed Rule:

(This summary is taken from the SUPPLEMENTARY INFORMATION on pages 14034-14054 of the above referenced issue of the Federal Register.)

A. The GFE Form and GFE Requirements

1. Changes to Facilitate Shopping [pgs. 14035-14036].

The proposed rule would require that a standardized GFE form, which is set forth as part of revised proposed Appendix C to Regulation X, be provided to borrowers by loan originators (*i.e.*, a lender or mortgage broker, as defined in proposed amendment to the definitions in Section 3500.2(b) of Regulation X) in all RESPA covered transactions (except for an open-end line of credit covered by TILA and Regulation Z in which the borrower at time of application is provided with the disclosures required by Section 226.5b of Regulation Z). The Appendix C also includes detailed instructions for completing the GFE form, which must be provided to the borrower exactly as specified. For a transaction involving more than one loan, a separate GFE would be required for each loan. ***(A copy of the standardized GFE form is attached to this memorandum.)***

The proposed rule proposes to establish a new definition for a “GFE application” and a separate new definition for “mortgage application.” The GFE application would include only the following six items of information in order to enable a loan originator to make a preliminary credit decision concerning the borrower and provide the borrower a GFE: borrower’s name, Social Security number, property address, monthly income, borrower's best estimate of the value of the property, and the amount of the mortgage loan sought. The proposed rule will also require that the GFE application be in writing or in computer-generated form. Although oral applications can be accepted at the option of the lender, in such cases the lender must reduce the oral application to a written or electronic record.

The proposed rule also provides that when a borrower chooses to proceed with a particular loan originator, the loan originator may require that the borrower provide a “mortgage application” to begin final underwriting. The mortgage application will ordinarily expand on the information provided in the GFE application.

The proposed rule provides that during final underwriting, the loan originator may verify the information in and developed from the GFE application, including employment and income information, ascertain the value of the property to secure the loan, update the credit analysis, and analyze any relevant information collected in the entire application process, including, but not limited to, information on the borrower's assets and liabilities. However, borrowers may not be rejected unless the loan originator determines that there is a change in the borrower's eligibility based on final underwriting, as compared to information provided in the GFE application and credit information developed for such application prior to the time the borrower chooses the particular loan originator, or unforeseeable circumstances results in a change in the borrower’s eligibility. If a borrower is rejected for a loan for which a GFE has been issued, the borrower must be notified within one business day of the rejection date, and if another loan product is available to the borrower, the loan originator must provide the borrower with a revised GFE. The loan originator must document the basis for any such determination and revised GFE and keep these records for no less than 3 years after settlement (proposed subsection 3500.7(f)(1) of Regulation X).

HUD acknowledges that the proposed changes in the definition of “application” by splitting the definition into “GFE application” and “Mortgage application,” and thereby dividing the application process into two parts, may affect the timing of the initial TILA disclosures and may trigger HMDA and ECOA requirements.

2. *Addressing Up-Front Fees That Impede Shopping [pg. 14036].*

The proposed rule would allow a loan originator, at its option, to collect a fee limited to the cost of providing the GFE, including the cost of an initial credit report, as a condition for providing a GFE to the prospective borrower; but, it would prohibit the loan originator from collecting, as a condition for providing a GFE, any fee for an appraisal, inspection, or other similar service needed for final underwriting.

3. *Introductory Language [pg. 14036].*

The proposed rule adds statements to the standardized GFE Form (*pages 1 and 3 of the GFE Form*) to the effect that the GFE is an estimate of the settlement charges and loan terms for the loan if approved, that the borrower is the only one who can shop for the best loan, and that the borrower should compare the GFE with other loan offers.

4. *Terms on the GFE (Summary of Loan Details)[pgs. 14036-14037].*

The proposed GFE includes the following summary of the key loan terms: (i) the initial loan amount; (ii) the loan term; (iii) the initial interest rate (*but not the Annual Percentage Rate*); (iv) the initial monthly payment for principal, interest, and any mortgage insurance; (v) the rate lock period; (vi) whether the interest rate can rise and the maximum rate; (vii) whether the loan balance can rise and the maximum loan amount; (viii) whether the monthly amount for principal, interest and any mortgage insurance can rise and the maximum payment; (ix) whether the loan has a prepayment penalty and the maximum penalty amount; (x) whether the loan has a balloon payment and the balloon payment amount and when due; and, (xi) whether the loan includes a monthly escrow payment for property taxes and other obligations.

The initial interest rate listed on the GFE will reflect the rate offered at the time the GFE is given. Until locked in, the interest rate will float. For unlocked loans originated by mortgage brokers, the amount of any credit or charge to the borrower (*i.e.*, yield spread premium or discount points) for the specific interest rate chosen will float with the wholesale market. This is because mortgage brokers must disclose the precise difference between the price of the loan and its par value in the block on page 2 of the GFE entitled “Your credit or charge for the specific interest rate chosen.”

5. *Period During Which the GFE Terms Are Available to the Borrower [pg. 14037].*

The proposed rule provides that the period for which GFE settlement charges are to be available is 10 business days, excluding the interest rate of the loan set forth in the GFE, some of the loan origination charges related to the interest rate, the per diem interest, and the monthly payment estimate. The interest rate stated on the GFE would be available until a date set by the loan originator for the loan. After that date, the interest rate, some of the loan origination charges, the per diem interest, and the monthly payment estimate for the loan could change until the interest rate is locked. Once a mortgage application is submitted to the loan originator, the non-

interest rate dependent settlement charges of the GFE that is the basis for the mortgage application remain in effect until closing.

6. Consolidating Major Categories on the GFE [pgs. 14037-14038].

The proposed standardized GFE would group and consolidate all fees and charges into major settlement cost categories, with a single total amount estimated for each category (*boxes 3 through 10 on page two of the GFE form*). HUD believes this approach would reduce any incentive for loan originators and others to establish a myriad of “junk fees” and provide them in a long list in order to increase their profits.

Under the proposed rule, if the lender requires the use of a particular provider other than its own employees, and requires the borrower to pay any portion of such service, the lender must identify on the GFE the service, and the estimated cost for the service. The current requirement to identify the required service provider by name, address, and telephone number would be eliminated (*i.e.*, current Section 3500.7(e) of Regulation X would be eliminated – see Section E.3. of this memorandum - and replaced by less detailed instructions in Appendix C).

When a lender permits a borrower to shop for a required settlement service, under the proposed rule the lender must provide the borrower with a written list of identified providers at the time the GFE is provided, on a separate sheet of paper.

7. Option to Pay Settlement Costs [pg. 14038].

The GFE must disclose how the loan’s interest rate affects the borrower’s settlement costs and include two actual available alternative loans. The loan presented in the GFE and these alternative offers of the loan originator will appear in a chart on page 3 of the GFE and inform borrowers that: (1) they can choose the loan presented in the GFE; (2) they can choose an otherwise identical loan with a lower interest rate and monthly payments that will raise settlement costs; or (3) they can choose an otherwise identical loan with a higher interest rate and monthly payments that will lower settlement costs. The chart must be completed for the loan presented in the GFE and the two alternative loans with the actual figures for the loan amounts, interest rates, monthly payments, amount of change in the monthly payment for each loan option, amount of change in the estimated settlement charges for each loan option, and the total estimated settlement charges. If either alternative loan is not available from the loan originator, the loan originator must indicate not available in the appropriate column on the GFE for the loan that is not available. If the borrower chooses one of the two alternative loans, the borrower must receive a new GFE. For ARM loans, the comparisons are for the initial interest rate before any adjustments.

8. Establishing Meaningful Standards for GFEs [pgs. 14038-14041].

(a) Tolerances: Absent unforeseeable circumstances (as defined in Section 3500.2(b) of Regulation X), the proposed rule would prohibit the following charges from increasing at settlement: (1) loan originator charges, listed as “Our service charge” in Block 1 on page 2 of the GFE; (2) while the interest rate is locked, the credit or charge to the borrower for the interest rate chosen, listed as “Your credit or charge for the specific interest rate chosen” in Block 2 on page 2 of the GFE; (3) while the interest rate is locked, Line A “Your Adjusted Origination Charges” (*which is the sum of items (1) and (2) above*) on page 2 of the GFE; (4) government recording and

transfer charges, listed in Block 6 on page 2 of the GFE. Absent unforeseeable circumstances, the proposed rule would prohibit the sum of all the other services subject to a tolerance (*i.e.*, loan originator required services where the loan originator selects the third party provider (Block 3); title services and lender's title insurance, if selected by the loan originator or if the borrower uses a provider identified by the loan originator (Block 4); loan originator required services where the borrower selects from a list of third party providers identified by the loan originator (Block 5); and optional owner's title insurance, if the borrower uses a provider identified by the loan originator (Block 10)) from increasing at settlement by more than 10 percent. Thus, a specific charge subject to a tolerance may increase by more than 10 percent at settlement, so long as the total sum of all the services subject to the 10 percent tolerance does not increase by more than 10 percent. The amounts of all other settlement services on the GFE may change at settlement.

Under the proposed rule, all charges may decrease between the time the GFE is provided and the date of settlement; all charges may increase in the event of unforeseeable circumstances; and some charges, such as reserves/escrows, per diem interest, homeowners' insurance, optional owner's title insurance from a provider selected by the borrower but not identified by the originator, and required services from a provider selected by the borrower but not identified by the originator, are not subject to any tolerance and may increase at settlement.

The proposed rule also provides that if the borrower requests changes to the loan identified in the GFE that would change the settlement charges or the loan terms, the loan originator is not bound by the original GFE. However, because the borrower is in effect initiating a new application, the loan originator would be required to: (i) notify the borrower within one business day of the decision to reject the loan; or, (ii) if another loan is made available, provide a revised GFE, and the loan originator would then be subject to the tolerances applicable to that GFE; and (iii) document the reasons for the revised GFE and retain the documentation for at least 3 years after settlement.

In addition, the proposed rule provides that originators must include all charges correctly within their prescribed category on the GFE (and the HUD-1/1A). The amounts for categories involving third parties can include only amounts paid to the third party, and must not include amounts retained by the loan originator for related services performed by the loan originator. This means that third party fees estimated on the GFE must be reported as the estimated prices to be paid to third parties only, and fees reported on the HUD-1/1A must not exceed those actually paid to third parties, except where the prices are based on an average calculated in accordance with proposed Section 3500.8(b)(2). (See the discussion on average cost pricing in Section D. below.)

In the case of a new home purchase, where it is anticipated settlement will occur more than 60 days from the time of the GFE application, the proposed rule provides that the loan originator may provide the GFE to the borrower with a clear and conspicuous separate disclosure stating that at any time up until 60 days prior to closing, the loan originator may issue a revised GFE. If no such separate disclosure is provided with the initial GFE, the loan originator cannot issue a revised GFE except as otherwise provided in the proposed rule (*i.e.*, unforeseeable circumstances or change in the borrower's eligibility at final underwriting).

(b) **Unforeseeable Circumstances:** The proposed rule (*Section 3500.2(b) of Regulation X*) defines “unforeseeable circumstances” as: (1) Acts of God, war, disaster, or other emergency that makes it impossible or impracticable for the originator to perform; or (2) circumstances that could not be reasonably foreseen by the loan originator at the time of the GFE application that are particular to the transaction and that result in increased costs (*e.g.*, a change in the property purchase price, boundary disputes, the need for a second appraisal or flood insurance, or environmental problems). **Market fluctuations are specifically excluded from being regarded as “unforeseeable circumstances.”**

When a loan originator cannot meet the tolerances because of unforeseeable circumstances, the loan originator may charge the borrower only the increased costs caused by such circumstances. Additionally, the loan originator must notify the borrower within 3 business days of such increase in charges and provide a new GFE reflecting the revised charges to the borrower. The proposed rule also provides that if unforeseeable circumstances result in a change in the borrower's eligibility for the specific loan terms identified in the GFE, the loan originator must notify the borrower within one business day of the rejection of the loan and, if another loan is made available, provide a revised GFE. Finally, in either event, the loan originator must document the unforeseeable circumstances that caused the cost increases or resulted in a change in the borrower's eligibility for the specific loan terms, and retain the appropriate documentation for at least 3 years after settlement.

9. Important Information for Borrowers [pg. 14041].

Page 4 of the GFE provides borrowers information on how to apply for the loan identified in the GFE. Page 4 also informs borrowers that they may wish to consult government publications about loans and settlement charges that have been published by HUD and the Federal Reserve Board. In addition, Page 4 provides the following information to borrowers about their financial responsibilities as homeowners: (i) notifies the borrower that in addition to the monthly loan payment for principal, interest, and mortgage insurance, the borrower may be required to pay other annual charges to keep the property; (ii) provides the borrower with an estimate for annual property taxes, along with homeowner's, flood, and other required property protection insurance; (iii) notifies the borrower that estimates for other annual charges, such as homeowner's association fees or condominium fees, are not required to be provided on the GFE; (iv) informs the borrower that the borrower may have to identify such other charges and ask for additional estimates from other sources; (v) states that such charges will not change based on the loan originator chosen by the borrower and advises the borrower not to consider the loan originator's estimates of such charges, when shopping for the best loan. Page 4 also advises the borrower that lenders can receive additional fees from other sources by selling the loan at some future date after settlement; but that once the loan is obtained at settlement, the loan terms, the adjusted origination charges, and total settlement charges cannot change. Page 4 also includes a shopping chart, which the borrower may complete, that allows borrowers to compare GFEs from different loan originators.

10. Enforcement [pg. 14041].

The proposed rule provides that failure to follow the GFE requirements, including exceeding the tolerance, constitutes a violation of Section 5 of RESPA, which requires the lender to provide a GFE correct in form and content. HUD is considering providing in the final rule (*it is*

not in the proposed rule) that if, within a specified period (such as 14 business days) after the closing, a loan originator identifies a charge that exceeded the tolerance and repays the excess amount of the charge to the consumer within the specified period, the loan originator would be in compliance with Section 5.

B. Lender Payments to Mortgage Brokers--Yield Spread Premium [pgs. 14041-14049]

(Note: When reading the following summary, please refer to the instructions for completing the GFE in Appendix C of the proposed rule [pgs. 14093-14098] and the attached GFE form to better understand how YSP, discount points, and fees paid to loan originator(s) are disclosed on the GFE.)

1. Overview.

It is common knowledge that mortgage brokers may be compensated for their services in originating mortgage loans by the borrower and/or the lender, and that when the interest rate on the loan exceeds the lender's par interest rate, the lender pays the broker an amount based on this interest rate differential, which is commonly referred to as a "yield spread premium" (YSP). Despite much opposition and numerous lawsuits, HUD has taken the position that YSPs can be useful and should remain available as an option for borrowers to help pay their closing costs, particularly those borrowers with limited available cash who choose to pay some or all closing costs through a higher interest rate. HUD made its position on the issue clear in HUD's Policy Statement 2001-1 (2001 Policy Statement). In the 2001 Policy Statement, HUD restated its view that as long as the broker's compensation is for services, and total compensation is reasonable, interest rate-based lender payments to the mortgage broker are legal under RESPA. In the 2001 Policy Statement, HUD stressed that disclosure of broker compensation was "*extremely important and that many of the concerns expressed by borrowers over YSPs can be addressed by disclosing YSPs, borrower compensation to the broker, and the terms of the mortgage loan, so that the borrower may evaluate and choose among alternative loan options.*" In brief, it has been HUD's consistent position that the existence of a YSP in any loan should be at the borrower's choice, based upon a complete understanding of the trade-off between up-front settlement costs and the interest rate.

For the past decade, HUD has required the disclosure of YSPs on the GFE and HUD-1 as a "payment outside closing" or "POC." This disclosure proved to be of little use to borrowers. Moreover, notwithstanding that lender payments to brokers are directly based on the rate of the borrower's loan, under current HUD guidance such lender payments are not required to be included in the calculation of the broker's total charges for the transaction, nor are they clearly listed as an expense to the borrower. Thus, borrowers do not understand that mortgage brokers' total compensation includes lender payments derived from the interest rate. The 2001 Policy Statement made clear that earlier disclosure and the entry of yield spread premiums as credits to borrowers would "offer greater assurance that lender payments to mortgage brokers serve borrowers' best interests."

2. The Proposed Rule/ Mortgage Broker Definition.

Under the proposed rule, lender payments to mortgage brokers in table funded and intermediary transactions are to be clearly disclosed to borrowers on the GFE and on the HUD-1.

The proposed rule would also revise the current regulatory definition of “mortgage broker.”

Under the revised definition (Section 3500.2(b) of Regulation X), “mortgage broker” would mean a person (not an employee of the lender) or entity that renders origination services in a table funded or intermediary transaction. The definition would also apply to an approved loan correspondent for FHA programs (*see*, 24 CFR 202.8). The revised definition would eliminate the exclusion of an “exclusive agent” of a lender from the current definition of “mortgage broker.” The current definition essentially excludes some persons who perform the same services as mortgage brokers. Therefore, in order to improve disclosure of settlement charges and increase transparency, an “exclusive agent” of a lender who is not an employee of the lender, but who renders origination services in a table funded or intermediary transaction, would be subject to the mortgage broker disclosure requirements set forth in the proposed rule.

3. *Disclosing Settlement Charges.*

The standardized GFE form in the proposed rule discloses the net origination charges owed to the loan originator at the bottom of the first page of the form as “Your Adjusted Origination Charges.” This amount is added to the charges for all other settlement services (*Blocks 3 through 10 on page 2*) to arrive at the “Total Estimated Settlement Charges” for the loan, also disclosed at the bottom of the GFE’s first page. This new disclosure approach is designed to help consumers focus on the net charges of the loan originator when comparing similar loans (from either a lender or a broker) and on the “Total Estimated Settlement Charges” for the loan.

Page 2 of the proposed GFE discloses how “Your Adjusted Origination Charges” are computed. In general, Block 1 discloses as “Our service charge” the total charge to be received by the loan originator(s) for, or as a result of, originating the mortgage loan. For loans originated by mortgage brokers, the amount in Block 1 must include all charges the broker and any other loan originator (*i.e., the funding lender*) will receive for, or as a result of, the mortgage loan origination, including any payments from the lender to the mortgage broker for the origination, but not any discount points (which must be disclosed in Block 2). For loans originated by lenders, the amount in Block 1 must include all charges to be paid by the borrower that are to be received by the lender for, or as a result of, the mortgage loan origination, except any amounts disclosed in Block 2 as a credit or a discount point(s). The loan origination charges disclosed in Block 1 may not increase at settlement. Block 2 discloses whether there is a credit (*i.e., YSP*) or a charge (*i.e., discount point(s)*) to the borrower for the specific interest rate chosen and the amount of the YSP credit or discount point charge. The proposed Appendix C instructions provide that a credit (*i.e., YSP*) and charge (*i.e., discount point*) cannot occur in the same loan transaction. The second check box in Block 2 discloses the amount of the YSP to be credited to the borrower and the loan’s higher interest rate because of the YSP credit. The third check box in Block 2 discloses the amount of the discount point(s) to be charged to the borrower and the loan’s lower interest rate because of the discount point(s). Any YSP credit is subtracted and any discount point charge is added to the loan origination charge disclosed in Block 1 to arrive at “Your Adjusted Origination Charge” disclosed in Line A on pages 1 and 2 of the GFE. While the interest rate is locked, the YSP credit to the borrower cannot decrease and the discount point charge to the borrower cannot increase. Lenders are not required to use the second or third boxes of Block 2; but, in loans where lenders do not make such disclosures, lenders are required to check the first box of Block 2 that discloses, “The credit or charge for the interest rate you have chosen is included in ‘Our service charge.’ (See [Block] 1 above.)” Loan originators, who are not lenders, may not use the first box

of Block 2, but must use the second or third box if either applies.

Many loan originators offer loans with no up-front fees due from the borrower. In the case where “no cost” refers only to the loan originator’s charges, Line A would show a zero charge as “Your Adjusted Origination Charges.” In the case where “no cost” encompasses third party fees as well as the up-front payment to the loan originator, the figure in Line A would have to be a negative number large enough to offset the third party fees covered under this definition of “no cost.” For mortgage brokers (who are required to disclose YSP), this implies that the YSP disclosed in Block 2 as a credit to the borrower would be larger than the service charge in Block 1. The sum of the positive number in Block 1 and the negative number (the YSP credit) in Block 2 would equal a negative number large enough to offset the third party fees. Lenders are not required but are permitted to disclose YSP credits in Block 2. If a lender chooses to do so, then the YSP disclosed in Block 2 as a credit would have to be larger than the service charge in Block 1. Just as in the mortgage broker case, the sum of the two would equal a negative number large enough to offset the third party fees for a “no cost” loan.

C. Modification of the HUD-1 Settlement Statement [pgs. 14049-14050]

1. Comparison with GFE.

The proposed rule would modify the current HUD-1 Settlement Statement to allow the borrower to easily compare specific charges at closing with the estimated charges listed on the GFE. In addition, an addendum (*i.e.*, “closing script” defined in Section 3500.2(b) of Regulation X) would be added to the HUD-1 that would compare the loan terms and settlement charges estimated on the GFE to the final charges on the HUD-1 and would describe in detail the loan terms for the specific mortgage loan and related settlement information. The settlement agent would be required to read the “closing script” addendum aloud to the borrower at settlement and provide a copy of it at settlement.

The proposed changes facilitate comparison of the two documents by inserting, on the relevant lines of the HUD-1, a reference to the corresponding block number on the GFE. With such changes, a borrower would be able to easily compare a figure in a particular column on the HUD-1 with the corresponding figure on the GFE. In addition, in order to allow the HUD-1 to still function as an effective settlement document, the proposed changes create new labels for lines, show totals while still permitting disclosure of specific charges within those totals (so long as not shown in either column or paid outside closing), and provide blank lines.

The totals from Blocks 3 and 5 on the GFE are broken out into the specific charges included in these totals, which are then listed individually on the HUD-1 in the columns or as POC. The totals from Blocks 3 and 5 are not listed as POC or in the columns to avoid double counting. All items on the HUD-1 that correspond to an item on the GFE are made to stand out by using a different font from the other text on the HUD-1, such as by bolding the text or using italics, so it is easier for the borrower to find these numbers when comparing the forms.

2. Loan Originator Charges.

The instructions (*i.e.*, proposed amended Appendix A) for completing the proposed amended HUD-1 will clarify the extent to which charges for individual services must be itemized.

In general, the HUD-1 would separately itemize every service provided by a third party (*i.e.*, other than the loan originator) to show the name of the party ultimately receiving the payment and the amount received. However, services connected to the origination of the loan must not be separately itemized, even if a loan originator uses a third party to perform those services. For example, charges for document handling or processing would not be separately itemized, but instead would be included in the loan originator's own charge, since the loan originator itself ordinarily performs those types of services. In order to clarify the types of services that may not be separately itemized on the HUD-1, the proposed rule adds the following definition of "Origination service" in Section 3500.2(b) of Regulation X: "[A]ny service involved in the creation of a mortgage loan, including but not limited to the taking of loan applications, loan processing, and the underwriting and funding of loans, and the processing and administrative services required to perform these functions."

3. *Items Payable in Connection with Loan - 800 Series.*

The proposed GFE distinguishes between those settlement charges attributable to the loan originator and charges for all other settlement services. However, Section 800 of the current HUD-1 form combines loan originator charges and some third party charges under the same heading ("Items Payable in Connection with Loan"). In order to facilitate comparison between the GFE and the HUD-1 for Section 800, the proposed amended HUD-1 replaces the existing line descriptions on the current HUD-1 with the relevant headings from the GFE. Thus, Line 801 on the proposed amended HUD-1 replaces "Loan origination Fee %" with "*Our service charge (from GFE #1)*" to refer back to Block 1 on the GFE. Line 802 on the proposed amended HUD-1 replaces "Loan discount %" with "*Your charge or credit for the specific interest rate chosen (from GFE #2)*" to refer back to Block 2 on the GFE. Line 803 of the proposed amended HUD-1 replaces "Appraisal Fee" with "*Your Adjusted Origination Charges (from GFE A)*" to correspond to GFE Line A. Lines 804 to 807 on the proposed amended HUD-1 replace "Credit Report" (line 804), "Lender's Inspection Fee" (line 805), "Mortgage Insurance Application Fee to" (line 806), and "Assumption Fee" (line 807) on the current HUD-1 with "*Appraisal fee to*" (line 804), "*Credit report to*" (line 805), "*Tax service*" (line 806), and "*Flood certification*" (line 807) including parenthetical notations disclosing that the charges are listed in Block 3 on the GFE (*i.e.*, required services selected by the loan originator). The dollar value in Line 803 (*i.e.*, the adjusted origination charges from GFE Line A) can show up in the borrower's column, or in the seller's column, or as POC and should be compared to the figure in GFE Line A. The figures in Lines 801 and 802 (*i.e.*, Blocks 1 and 2 of the GFE) must not show up in either column or as POC in order to avoid double counting.

4. *Items Required by Lender to be Paid in Advance - 900 Series.*

For Section 900, the proposed amended HUD-1 replaces Line 901 "Interest" with "*Daily interest charges (from GFE #8)*"; Line 902 replaces "Mortgage Insurance Premium" with "*Mortgage insurance premium (from GFE #3 or #5)*"; and Line 903 replaces "Hazard Insurance Premium" with "*Homeowner's insurance (from GFE #9)*."

5. *Reserves Deposited with Lender - 1000 Series.*

For Section 1000, the proposed amended HUD-1 renames Line 1001 "Hazard Insurance"

with “*Reserves or escrow (from GFE #7)*” and then renumbers the current lines as follows: “Homeowner’s insurance” (Line 1002); “Mortgage insurance” (Line 1003); “City property taxes” (Line 1004); “County property taxes” (Line 1005); “Annual assessments” (Line 1006); and, “Aggregate Adjustment” (Line 1009).

6. *Title Charges - 1100 Series.*

The instructions for completing the HUD-1 also clarify the extent to which charges for title services must be itemized. In general, the HUD-1 must separately identify each service provider that is performing title services, along with the total amount received. If a party other than the title company listed on line 1101 (*Title services and lender’s title insurance (from GFE #4)*) of the proposed amended HUD-1 provides services that are separate from providing title insurance, such as attorney and settlement or escrow agent services, the title company should separately itemize those services with the total amount paid to that provider listed outside of the columns. However, charges for services defined as “primary title services” such as abstract, title binder, copying, document handling, or notary fees, should not be separately itemized on the HUD-1, even if a party other than the title company listed on line 1101 of the HUD-1 provides those services. The amount in Line 1101 must be listed in the appropriate column.

7. *Government Recording and Transfer Charges - 1200 Series.*

For Section 1200, the proposed amended HUD-1 renames Line 1201 as “*Government Recording and Transfer Charges (from GFE #6)*” and then renumbers and renames the current lines as follows: Line 1202, “Recording fees”; Line 1203, “City/county tax/stamps”; Line 1204, “State tax/stamps”; and Line 1205, “Conservation fee,” including appropriate notations disclosing the document (*i.e.*, Deed, Mortgage, or Release) and fee for each.

8. *Additional Settlement Charges - 1300 Series.*

For Section 1300, Line 1301 is renamed “*Survey (from GFE #5)*” and Line 1302 is renamed “*Pest inspection (from GFE #5).*”

9. *“Closing Script” Addendum to HUD-1.*

In addition to the proposed changes to the HUD-1 discussed above, the proposed rule provides for an addendum to the HUD-1, referred to as the “closing script,” that would be provided to the borrower at closing. The loan originator would transmit to the settlement agent all information necessary to complete the closing script. The settlement agent would prepare the closing script and would be required to read the closing script aloud to the borrower at settlement. The closing script would (i) compare the loan terms and settlement charges estimated on the GFE with those on the HUD-1, (ii) describe in detail the loan terms for the specific loan as stated in the note and related settlement information, and (iii) explain whether or not the tolerances for the settlement service charges have been met. Any inconsistencies between the mortgage note, between related settlement information and the GFE, and between the HUD-1 settlement charges and the GFE would have to be disclosed and explained to the borrower. The length of the closing script would vary depending on the specifics of the loan.

The proposed rule would also require that the closing script addendum be delivered to the borrower at closing as part of the HUD-1. Upon request of the borrower, the HUD-1 and the closing script addendum would have to be made available for review by the borrower 24 hours prior to the settlement.

The instructions to the preparer of the closing script, along with examples of closing scripts, are included in amended Appendix A to the proposed rule.

10. Proposed Changes to the HUD-1A Settlement Statement.

The proposed rule provides that the HUD-1A and its instructions will be conformed to the changes to the HUD-1 and HUD-1 instructions at the final rule stage.

11. Enforcement.

The proposed rule provides that failure to complete the HUD-1 or the closing script or to read and explain the information in the closing script to the borrower in accordance with Regulation X constitutes a violation of Section 4 of RESPA.

D. Average Cost Pricing and Negotiated Discounts [pgs. 14050-14052]

1. Average Cost Pricing.

The proposed rule would amend Section 3500.8 of Regulation X to permit the loan originator to calculate third party settlement service charges using average cost pricing. By using average cost pricing, loan originators could avoid having to track individual prices paid for third party services on a transaction-by-transaction basis. The proposed rule would make clear that where average cost pricing is used, the evaluation of prices of third party services should focus on all of the loan originator's transactions together, rather than viewing each transaction separately. An individual borrower might be charged more or less than the actual amount paid for that service in an individual transaction, provided that borrowers are being charged no more than the average price actually received by third parties during the period in which the average price is computed.

The proposed rule would allow loan originators to disclose on the HUD-1 an average cost price in accordance with one of two specific methods set forth in proposed amended Section 3500.8 that loan originators may use to calculate an average price for a particular third party settlement service. The loan originator would designate a recent 6-month period as the "averaging period" for purposes of calculating the average price. The same average price must then be used in every transaction in that class of transactions for which a GFE is provided following the averaging period until a new averaging period is established. The average price would be calculated either as: (1) the actual average price for the third party settlement service during the averaging period; or (2) a projected average under a tiered pricing contract, based on the number of transactions that actually closed during the recent averaging period. If a loan originator uses one of these methods to calculate the average price for a third party settlement service, HUD will deem the loan originator to have complied with the requirements of the proposed rule.

Finally, with regard to any pricing method used by a loan originator, if a violation of section 8 of RESPA is alleged and an investigation ensues, the proposed rule would place the

burden on the targeted loan originator to demonstrate compliance with a permissible pricing method through the production of relevant records, which records the loan originator must retain for at least 3 years.

2. *Negotiated Discounts.*

The proposed rule also would amend the definition of “thing of value” in Section 3500.14(d) of Regulation X to permit settlement service providers to negotiate a discount in the price of a third party settlement service, so long as the borrower is not charged more than the discounted price and the discounted price is disclosed on the HUD-1/1A.

E. Changes to Strengthen Prohibition Against Required Use of Affiliates [pgs. 14052-14053]

1. *Required Use.*

Currently, “required use” is defined in Section 3500.2(b) of Regulation X as follows:

Required use means a situation in which a person must use a particular provider of a settlement service in order to have access to some distinct service or property, and the person will pay for the settlement service of the particular provider or will pay a charge attributable, in whole or in part, to the settlement service. However, the offering of a package (or combination of settlement services) or the offering of discounts or rebates to consumers for the purchase of multiple settlement services does not constitute a required use. Any package or discount must be optional to the purchaser. The discount must be a true discount below the prices that are otherwise generally available, and must not be made up by higher costs elsewhere in the settlement process.

The proposed rule would change the definition of “required use” in Section 3500.2(b) to the following:

Required use means a situation in which a borrower's access to some distinct service, property, discount, rebate, or other economic incentive, or the borrower's ability to avoid an economic disincentive or penalty, is contingent upon the borrower using or failing to use a referred provider of settlement services. However, the offering by a settlement service provider of an optional combination of bona fide settlement services to a borrower at a total price lower than the sum of the prices of the individual settlement services does not constitute a required use.

This change in the definition of “required use” was proposed so that incentives that consumers may want to accept and disincentives that consumers may want to avoid would be analyzed similarly for compliance with RESPA. This proposed change may make economic disincentives that a consumer can avoid only by purchasing a settlement service from providers to whom the consumer has been referred to be potentially as problematic under RESPA as are economic incentives that are contingent on the consumer's choice of a particular settlement service provider. In particular, the proposed change may affect the analysis under section 8(a) of RESPA of disincentives that are avoided only by using an affiliated settlement service provider (*see discussion in 2. below*). The change may also affect sellers who use disincentives to influence a borrower's choice of a particular title company.

The revised definition of “required use” in the proposed rule, however, is not intended to prevent discounts that are beneficial to consumers. The revised definition states that the offering by a settlement service provider of an optional combination of bona fide settlement services to a borrower at a total price lower than the sum of the prices of the individual settlement services would not constitute a “required use.” Also, by proposed amendment to Section 3500.14(d) of Regulation X, which defines “thing of value,” a discount in the price of a third party settlement service negotiated by a settlement service provider is defined as not being a thing of value, and so would not be in violation of the referral prohibitions in section 8(a) of RESPA.

2. Effect of Revised Definition of Required Use on Affiliated Business Arrangements.

Section 8(a) of RESPA prohibits persons from giving or receiving a thing of value pursuant to an agreement for the referral of business incident to a settlement service. RESPA was amended in 1983 to allow businesses to make referrals to affiliated businesses and to receive a benefit from their ownership interest in the affiliated businesses, so long as three conditions are met. One of the three conditions is that a consumer may not be required to use any particular affiliated business provider of settlement services.

HUD believes that the affiliated business arrangement exception in section 8 of RESPA has been used by some businesses that use incentives or disincentives to steer consumers to affiliated settlement service providers. The proposed change in the definition of “required use” may eliminate the argument by affiliated businesses that consumer business captured through economic incentive or disincentive arrangements is not a “required use” that prevents them from invoking the affiliated business exemption to section 8 violations.

3. Continued Application of Required Use.

The proposed revision to the “required use” definition would continue to apply in two sections of Regulation X: the affiliated business exemption in Section 3500.15, and the prohibition on the seller requiring the buyer to purchase title insurance from a particular company in Section 3500.16. However, as part of the proposed rule’s amendment of Section 3500.7, and in light of other changes that would be made by the proposed rule, the term “required use” would no longer apply as it does in current Section 3500.7(e), “*Particular providers required by lender*,” which the proposed rule deletes.

F. Technical Amendments to Current RESPA Regulations [pgs. 14053-14054]

The proposed rule would amend the escrow regulations in Section 3500.17 of Regulation X, by removing outdated provisions. The proposed rule also would amend Section 3500.21 of Regulation X concerning the Servicing Disclosure Statement, to make it consist with current statutory requirements in section 6(a) of RESPA and with other provisions of the proposed rule.

1. Escrow Account Accounting.

The proposed rule would amend current Section 3500.17 to eliminate the phase-in period for aggregate accounting for escrow accounts. The phase-in period was a transitional provision that expired on October 27, 1997. All servicers are currently required to use the aggregate

accounting method. The proposed rule would clarify this by eliminating provisions that relate only to the alternate accounting methods that were permitted during the phase-in period.

2. Servicing Disclosure Statement.

In addition to the amendments that would make Section 3500.21 consist with other provisions of the proposed rule, the proposed rule also would amend Section 3500.21 in order to make it consistent with the 1996 statutory amendments to section 6(a) of RESPA that eliminated the requirements that (i) the Servicing Disclosure Statement describe the lender's historical practice regarding the sale or transfer of servicing rights, and (ii) the Servicing Disclosure Statement contain a signed statement from the applicant acknowledging that the applicant has read and understood the Servicing Disclosure Statement.

G. ESIGN Applicability to RESPA Disclosures [pg. 14054]

The proposed rule would add new Section 3500.23 to Regulation X to explicitly recognize the current statutory applicability of the Electronic Signatures in Global and National Commerce Act (ESIGN), 15 U.S.C. 7001-7031, to RESPA. This proposed amendment is intended to make clear that all RESPA disclosures may be provided to consumers in electronic form, so long as the consumer consents to receive such disclosures in electronic form and the other specific conditions of ESIGN are met. This recognition of the applicability of ESIGN to RESPA would also make clear that all documents required to be retained under RESPA may be retained in electronic format, so long as the ESIGN requirements for document retention are met.

H. HUD Requests Comments on the Following Issues [14054]

Although HUD welcomes comments on all aspects of the proposed rule, you may want to focus on the following issues that HUD has specifically asked for comments:

1. Whether a 12-month implementation period for the proposed GFE format is appropriate.
2. The proposed GFE, and the proposed HUD-1/1A Settlement Statement Forms.
3. Possible additional ways to increase consumer understanding of adjustable rate mortgages.
4. Whether the proposed requirements for completing and delivering the closing script Addendum to the HUD-1/1A, including the mandatory reading of the closing script to the borrower by the party conducting the closing, are the best methods for assuring that the borrower understands the loan terms and the differences between the GFE and the HUD-1/1A.
5. Whether a provision should be added allowing a loan originator, for a limited time after closing, to address the failure to comply with tolerances under the proposed GFE requirements, and if so, how should such a provision be structured? Would such a provision be useful, and if so, what would be the appropriate time frame for finding and refunding excess charges? Could such a provision be abused, and therefore harmful to consumers? Would the ability of prosecutors to exercise enforcement discretion obviate the need for such a provision?
6. Proposed methods for calculating average cost prices and any alternative methods that should be permitted. Specifically, how to define "class of transactions." Comments are also

invited on alternative average cost pricing methods and other pricing methods that benefit consumers and are based on factors that would lead to charges to the consumer and disclosure of such charges that are easily calculated, verified, and enforced, but difficult to manipulate in an abusive manner. Such factors could include:

- (a) experience over a period of time that is longer or shorter than that currently provided in the proposed rule;
- (b) prices for the service among the usual third party providers upon which the loan originator usually relies;
- (c) general industry practices; and
- (d) a reasonable projection of future costs.

7. Whether the proposed change in the definition of “required use” will better serve the purposes of RESPA and whether further improvements could be made in the definition to accomplish the intent of both the affiliated business exemption in section 8 and the prohibition on the required use of a title company in section 9 of RESPA.

8. With respect to the revised definition of “Good Faith Estimate” set forth in Section 3500.2(b) of the proposed rule, is the standard set forth sufficient to ensure that good faith estimates will be filled out consistently by all loan originators in a particular community?

9. Should the Servicing Disclosure Statement that is required by Section 3500.21 of Regulation X be included on the GFE?

10. Should a loan originator be required to include a “no cost loan” on the trade-off chart on page 3 of the GFE as one of the alternative loans if it is not the loan for which the GFE is written?

FHA SINGLE FAMILY MORTGAGE LOANS [pgs. 14048-14049]

HUD also proposes in this proposed rule to change the FHA regulations limiting origination fees by proposing to remove the current specific limitations on the amounts mortgagees presently are allowed to charge borrowers directly for originating and closing an FHA-insured loan. The FHA Commissioner would, however, retain authority to set limits on the amount of any fees that mortgagees charge borrowers directly for obtaining an FHA loan. Under current FHA regulations in 24 CFR 203.27, origination fees are generally limited to one percent of the mortgage amount (excluding MIP) for permanent loans (subsection 203.27(a)(i)) and 2.5 percent of the mortgage amount (excluding MIP) for loans involving new construction or repair or rehabilitation requiring construction advances and inspections (subsections 203.27(a)(ii) and (iii)).

HUD believes that improvements to the disclosure requirements as a result of the proposed rule amending Regulation X should make total loan charges more transparent and allow market forces to lower these charges for all borrowers, including FHA borrowers. Therefore, HUD is proposing to amend Section 203.27 by deleting subsections (a)(2)(i), (a)(2)(ii) and (a)(2)(iii) and revising paragraph (a)(2) to read as follows:

Sec. 203.27 Charges, fees, or discounts.

- (a) The mortgagee may collect from the mortgagor the following charges, fees or discounts:

(2) A charge to compensate the mortgagee for expenses incurred in originating and closing the loan, provided that the Commissioner may establish limitations on the amount of any such charge.

Congressional Review of Final Rule:

The rule proposed by HUD summarized in this memorandum constitutes a “major rule” as defined in the Congressional Review Act (5 U.S.C. Chapter 8). At the final rule stage, the rule will have a 60-day delayed effective date and be submitted to the Congress in accordance with the requirements of the Congressional Review Act. Thus, if the lending industry’s comments do not persuade HUD to amend the proposed rule’s more onerous provisions, the opportunity remains to lobby Congress for relief before the rule is effective.

Conclusion:

Please be advised that the proposed rule is not final. It is subject to public comment and possible changes by HUD and Congress before it become effective. At the present time it is unknown if and when the proposed rule will be adopted as a final rule. Given the significant changes that would be made in Regulation X by this proposed rule, HUD intends to include a 12-month transition period in the final rule, during which settlement service providers and other persons may comply with either the current requirements or the revised requirements of the final rule.

<p>This Memorandum is provided for the general information of the clients and friends of our firm only and is not intended as specific legal advice. You should not place reliance on this general information alone but should consult legal counsel regarding the application of the information discussed in this Memorandum to your specific case or circumstances.</p>

Attachment: Proposed Good Faith Estimate Form

Good Faith Estimate (GFE)

Name of Originator	Borrower
Originator Address	Property Address
Originator Phone Number	
Originator email	Date of GFE

Instructions

This GFE gives you an estimate of your settlement charges and loan terms if you are approved for this loan. See page 3 for more detailed Instructions.

Important dates

1. The interest rate for this GFE is available until _____. After that date, the interest rate, some of your Loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available until _____.
3. If you proceed with this loan, you must go to settlement in _____ days. You must lock the interest rate at least _____ days before settlement.

Summary of your loan terms

Your Loan Details

Your initial loan balance is	\$	
Your loan term is		years
Your initial interest rate is		%
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	\$	per month
Your rate lock period is		days
<i>After you lock in your interest rate, you must go to settlement within this number of days to guarantee this interest rate.</i>		
Can your interest rate rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, It can rise to a maximum of _____ %
Can your loan balance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, It can rise to a maximum of \$ _____
Can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, It can rise to a maximum of \$ _____
Does your loan have a prepayment penalty?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____
Does your loan have a balloon payment?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years.
Does your loan include a monthly escrow payment for property taxes and, possibly, other obligations?	<input type="checkbox"/> No	<input type="checkbox"/> Yes

Summary of your settlement charges

A Your Adjusted Origination Charges (Table A, page 2)	\$
B Your Charges for All Other Settlement Services (Table B, page 2)	\$
A+B Total Estimated Settlement Charges	\$

**Understanding
your estimated
settlement charges**

Your Loan Details

1. Our service charge
These charges are for the services we provide when we get and process this loan for you.
2. Your credit or charge for the specific interest rate chosen (points)
 - The credit or charge for the interest rate you have chosen is included in "Our service charge." (See item 1 above.)
 - You receive a credit of \$ _____ for this interest rate of ____%.
This credit reduces your upfront charges.
 - You pay a charge of \$ _____ for this interest rate of ____%.
This payment (discount points) increases your upfront charges. (See the table on page 3 to see how you can change this charge or credit by choosing a different interest rate.)

A **Your Adjusted Origination Charges** \$ _____

Your Charges for All Other Settlement Services

3. **Required services that we select**
These charges are for services we require to complete your settlement. We will choose the providers of these services.

<i>Service</i>	<i>Charge</i>

4. **Title services and lender's title insurance**
This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.

5. **Required services that you can shop for**
These charges are for other services that are required to complete your settlement. We can refer you to providers of these services or you can shop for them yourself. Our estimates for providing these services are below.

<i>Service</i>	<i>Charge</i>

6. **Government recording and transfer charges**
This includes state and local charges on mortgages and home sales.

7. **Reserves or escrow**
This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.

8. **Daily interest charges**
This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. For this loan, this amount is \$ _____ per day for ____ days (if your closing date is _____).

9. **Homeowner's insurance**
This charge is for the insurance you must buy for the property to protect from a loss, such as fire.

10. **Optional owner's title insurance**
This charge is for additional insurance you can choose to buy to protect yourself from title defects.

B **Your Charges for All Other Settlement Services** \$ _____

A + B **Total Estimated Settlement Charges** \$ _____

Important Information and Instructions

Shopping for a loan offer

Only you can shop for the best loan for you. Compare this GFE with other loan offers, so you can find the best loan. Use the table on page 4 to compare all the offers you receive.

Understanding which charges can change at settlement

The GFE estimates your settlement charges. At your settlement, you will receive a HUD-1. 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 your lender suggests.

The list below shows you how much the estimated charges on this GFE can change at your closing.

These charges cannot increase at settlement:	The total of these charges can increase up to 10% at settlement:	These charges can change at settlement:
<ul style="list-style-type: none"> ▪ Our service charge ▪ Your charge or credit for the specific interest rate chosen (after you lock in your interest rate). ▪ Government recording and transfer charges 	<ul style="list-style-type: none"> ▪ Required services that we select ▪ Title services and lender's title insurance (if we select them or you use providers identified by us) ▪ Required services that you can shop for (if you use providers identified by us) ▪ Optional owner's title insurance (if you use providers identified by us) 	<ul style="list-style-type: none"> ▪ Required services that you can shop for (if you do not use providers identified by us) ▪ Title services and lender's title insurance (if you do not use providers identified by us) ▪ Reserves or escrow ▪ Daily interest rate charges ▪ Homeowner's insurance ▪ Optional owner's title insurance (if you do not use providers identified by us)

Looking at trade-offs

In this GFE, we offered you a particular interest rate and estimated settlement charges. But, you could choose other loans to get a lower interest rate or lower settlement charges.

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

The table below shows how the loan for this GFE compares to two other options. If you decide you want to make one of these trade-offs, you must ask us for a new GFE.

	The loan in this GFE	A loan with a lower interest rate	A loan with lower settlement charges
Your loan amount	\$	\$	\$
Your interest rate	%	%	%
How much your monthly payment will be	\$	\$	\$
How much more or less in monthly payments from this GFE	No Change	You will pay \$ less every month	You will pay \$ more every month
How much more or less you will pay at settlement with this interest rate	No Change	Your lower interest rate will raise your settlement charges by \$	Your higher interest rate will lower your settlement charges by \$
How much your total estimated settlement charges will be	\$	\$	\$

If this loan offer is for an adjustable rate loan, the comparisons in the table are for the initial interest rate before any adjustments are made.

Your financial responsibilities as a homeowner

In addition to your monthly amount owed for principal, interest, and mortgage insurance, you may need to pay other required annual charges to keep your property. We must provide an estimate for annual property taxes along with homeowner’s, flood, and other required property protection insurance, but we are not required to provide estimates for the other charges. You may have to identify the other charges and ask for additional estimates from others.

Different sources might use different techniques to estimate these charges, but the actual charges will be the same in the end. Therefore, do not use these estimates to compare settlement charges from different loan originators.

- Annual property taxes
- Annual homeowner’s insurance
- Annual flood insurance
- Annual homeowners association/condominium fees
- Other
- Total Other Annual Charges**

Applying for this loan

If you decide you would like to apply for this loan, contact us at _____.
 You must pay a fee of \$ _____. This fee will be subtracted from your settlement charges.

Getting more information

The type of loan you choose can affect your current and future monthly payments. You can ask us for more information about loan types. You can also look at several government publications: HUD’s *Special Information Booklet* on settlement charges, your *Truth-in-Lending Disclosures*, and consumer information publications of the Federal Reserve Board.

Using the shopping chart

Use this chart to compare Good Faith Estimates (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.

	Loan 1	Loan 2	Loan 3	Loan 4
Loan Originator Name				
Initial Loan Balance				
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?				
Balloon Payment?				
Total Estimated Settlement Charges ▶				

If your loan is sold in the future

Lenders can receive additional fees by selling your loan at some future date after settlement. Once you have obtained your loan at settlement, however, your loan terms, adjusted origination charges, and total settlement charges cannot change. After settlement, any fees lenders receive in the future cannot change the loan you received or the charges you paid at settlement.