

## HUD 2010 – New RESPA Rules

The U.S. Department of Housing and Urban Development (HUD) has issued new Real Estate Settlement Procedures Act (RESPA) rules requiring the use of the new HUD-1 form for loans in which the application was taken after January 1, 2010. View regulation: [www.hud.gov/offices/hsg/ramh/res/respa\\_hm.cfm](http://www.hud.gov/offices/hsg/ramh/res/respa_hm.cfm).

What's new? Probably the biggest change is the addition of a 3rd page to the HUD-1 settlement statement which includes a comparison of charges quoted on the Good Faith Estimate (GFE) to the actual charges on the HUD-1. This has been provided to highlight prescribed tolerances for the increase of some fees quoted on the GFE by the lender. The three categories include:

**Category 1** – charges that cannot change at settlement which include transfer taxes, lender origination fee, loan points, and adjusted origination charges (after a rate lock).

**Category 2** – charges which cannot change by more than 10% at settlement. This incorporates title services, lender's title insurance (if selected or identified as a service provider by the lender), owner's title insurance (if a company identified by the lender), government recording charges and other required services for which a customer can shop.

**Category 3** – charges which can change at settlement. This includes homeowner's insurance, daily interest charges, escrow deposits, title services (if not a company identified by lender), lender's and owner's policies (if not a company identified by the lender) and other required services needed to obtain the loan (if the provider was not identified by the lender).

If the actual fees on the final HUD-1 are higher than the limits allowed as noted above it is deemed a "tolerance violation" and the lender is responsible for correcting it. The first option is for the lender to redisclose fees to the borrower; however, 7 business days must pass before the loan can close. The 2<sup>nd</sup> option is for the lender to cure the tolerance violation at closing with a credit. Lastly, while HUD recommends that the lender cure the tolerance violation at closing, the lender has 30 days to provide the borrower reimbursement. Keep in mind that these rules apply only when a lender has under-disclosed fees on the GFE, if the actual fees are less than what had been previously disclosed that is not considered a violation of RESPA. View the GFE in its entirety: [www.hud.gov/content/releases/goodfaithestimate.pdf](http://www.hud.gov/content/releases/goodfaithestimate.pdf).

Here are a few other noteworthy changes to the loan process, GFE and HUD-1 settlement statement:

- Potential borrower must be supplied a Good Faith Estimate within 3 business days of the loan originator receiving an application or information sufficient to complete an application.
- If a borrower does not express intent to continue with an application within 10 business days after the GFE is provided the loan originator is no longer bound by that GFE.
- All charges typically paid by the borrower must be disclosed on the GFE regardless of whether the charges will be paid for by the borrower, the seller, or any other party. Lender or title fees can no longer be "pushed" to the seller side. If seller has agreed to pay a portion of these fees a credit must be placed on the front of the HUD-1.
- Lender and title related fees are now detailed on the HUD-1 indicating their corresponding placement on the GFE. View the new HUD-1: [www.hud.gov/offices/hsg/ramh/res/hud1.pdf](http://www.hud.gov/offices/hsg/ramh/res/hud1.pdf).
- Title service charges are now grouped together on a single line of the HUD-1, no longer individually detailed as the previous version mandated. Title services include lender's policy, closing fees, and all other processing or administrative fees (express mail, email fee, etc.).
- Yield Spread Premium (YSP) or broker compensation is no longer listed as POC (paid outside of closing) on the HUD-1. Under the new RESPA rule, this fee is charged to the borrower on 2<sup>nd</sup> page and offset with a credit on the front of the HUD-1 if the lender is paying for it.

All of the changes mentioned have been instituted with the goal of making the lending process more transparent to the borrower and also eliminate surprises at the closing table. The Good Faith Estimate can be used as a tool by the borrower to compare costs among various lenders and make an informed decision. Only time will tell if this will truly make for an informed closing experience for borrowers.