

***“A brain is a lot like a computer. It will only take so many facts,
and then it will go on overload and blow up.”***

*- Erma Bombeck
U.S. humorist*



Mortgage Compliance Advisors

Revisiting the GFE:
How to Resolve Common Findings

September 23, 2010

Presenter: Kristen Kalikakis



Instructions

- Because of the large number of registrants, the lines will be muted
- To ask a question, click the plus sign next to “Questions” on the GoToWebinar box and type your question
- There will be a break for questions during the presentation, and the remaining questions will be answered at the end of the webinar. If your question is not addressed, we will email the answer to you
- You should have received a reminder email with a link to the slides. You can also find the slides for all our webinars on our website under the [News & Resources](#) tab



Our Panelists

We are fortunate to have with us today a panel of experienced mortgage professionals. They will be taking the time to answer your questions and provide insight from hands-on application.

- John Norman *Esq.*
- Bob Warnock *MCA CEO*
- Craig Christensen *MCA COO*



Reviewing Previous GFE Webinars

- February and March GFE Webinars covered technical standpoint and how to complete the 2010 GFE according to instructions from HUD.
- Today's review will be a more practical overview, including a review of the most common compliance findings with the 2010 GFE.



Agenda

- Updates from HUD (FAQs 4/02/10)
- Common Compliance Findings
- Timing of GFE Disclosure
- Settlement Service Provider List
- Changed Circumstances
- Cost to Cure
- Commonly asked questions and answers
- Q & A Session



What has changed

- HUD updated its FAQs on 4/02/10 and has new reference material available: *RESPA Roundup*
 - www.hud.gov/respa
 - [RESPA Roundup: Vol. 1, July 2010](#)



Updates to HUD's FAQs 4/02/10

- Updated FAQs provide clarification regarding:
 1. PreApprovals
 2. Initial Fees Worksheet
 3. Disclosure of fees in Block 1



PreApproval

- Intended to assist a consumer by enabling them to enter into a purchase contract which does not contain a financing contingency.
- Is NEVER to be used as a substitute for a GFE.
- If property is chosen and loan originator is willing to qualify the applicant for a specific loan amount, a GFE should be issued to facilitate shopping for a loan, not just a preapproval used to shop for a property.

(FAQ's page 11 #33-34)



Initial Fees Worksheet

- May contain generic information regarding interest rates and loan fees.
- May provide additional information regarding the cost of the overall transaction outside of loan fees disclosed on the GFE.
- Guidance on acceptability of worksheet:
 - Worksheet should not look like a GFE
 - Worksheet cannot be used in lieu of GFE
 - Worksheet can be used in conjunction with GFE

(FAQs page 12 #35-36)



Block 1: Disclosure of fees and clarification of increase to charges

- Originator's commitment fee is included in Block 1.
- Changes clarify when charges in Block 1 may change and revised GFE can be provided
 - If the loan amount changes and all or a portion of Block 1 is calculated as a % of the loan amount, then that portion of Block 1 may be recalculated.
- FAQs provide additional guidance on YSP disclosure
 - Block 1 may contain all, or a portion of, the credit for the interest rate reflected in Block 2.

(FAQs page 28-30, #7-#12)



Common Compliance Findings

- GFE must be issued within three business days of receipt of information sufficient to complete an application
 1. Borrower's Name
 2. Borrower's Monthly Income
 3. Borrower's Social Security Number
 4. Property Address
 5. Estimate of Value of Property
 6. Loan Amount
 - Any other information deemed necessary by loan originator



Top 3 Compliance Tips

1. Complete all boxes, lines and pages in their entirety.
2. Document all changes and disclose within required time frame.
3. Retain all supporting documentation in your file.



Common Findings: GFE Page 1



OMB Approval No. 2502-0265

Good Faith Estimate (GFE)

Name of Originator	ABC Mortgage Inc.	Borrower	John Doe
Originator Address	123 Main St. Anywhere, USA 55555	Property Address	123 Oak Ave. Anywhere, USA 55555
Originator Phone Number	(555) 555-5555	Date of GFE	9/23/2010
Originator Email	abc@abc-mtg.com		

- **Finding:** Originator information not completed
 - This information should be completed with the name, address and phone # of the company.
 - Originator email address does need to be provided.
- **Finding:** Date of GFE not updated with each re-issue.



Common Findings: Important Dates

Important dates

1. The interest rate for this GFE is available through . After this time, 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 through .
3. After you lock your interest rate, you must go to settlement within days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least days before settlement.

- **Finding:** Item 1 marked N/A

- GFE instruction states: In Line 1, the loan originator must state the date and, if necessary, time until which the interest rate for the GFE will be available.



Common Findings: Important Dates (cont.)

Important dates

1. The interest rate for this GFE is available through . After this time, 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 through .
3. After you lock your interest rate, you must go to settlement within days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least days before settlement.

- **Finding:** Item 2 does not reflect 10 business days from date of GFE.
- A "**business day**" is defined as all calendar days except Sundays and legal public holidays.
- Originator is not bound by GFE if borrower does not express intent to proceed with application within 10 business days after providing GFE.



Common Findings: Important Dates (cont.)

Important dates

1. The interest rate for this GFE is available through . After this time, 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 through .
3. After you lock your interest rate, you must go to settlement within days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least days before settlement.

- **Finding:** Items 3 and 4 not updated with lock information.
 - Item 3 should contain N/A when unlocked and a lock in period when locked.
 - Item 4 should contain number of days required by your lender when unlocked and N/A when locked.



Common Findings: Summary of Your Loan

Summary of your loan	Your initial loan amount 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		
	Can your interest rate rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of %.	
	Even if you make payments on time, can your loan balance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of \$	
	Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, the first increase can be in and the monthly amount owed can rise to \$. The maximum it can ever rise to is \$.	
	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.		

- Make sure all boxes are complete.



Common Findings: Summary of Your Loan

Summary of your loan	Your initial loan amount 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		
	Can your interest rate rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of %.	The first change will be in .
	Even if you make payments on time, can your loan balance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of \$	
	Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, the first increase can be in and the monthly amount owed can rise to \$. The maximum it can ever rise to is \$.	
	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.		

For ARMs:

- *“Can your interest rate rise?”*
 - Complete this box with Yes, and the maximum rate which will apply over the life of the loan and the period of time after which the interest rate can first change.



Common Findings: Summary of Your Loan

Summary of your loan	Your initial loan amount 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		
	Can your interest rate rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of %.	
	Even if you make payments on time, can your loan balance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of \$	
	Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input type="checkbox"/> No	<input type="checkbox"/> Yes, the first increase can be in and the monthly amount owed can rise to \$. The maximum it can ever rise to is \$.	
	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.		

For ARMs:

- *“Even if you make payments on time...”*
 - Mark yes and complete with the terms of the ARM. For example, input the future P & I payment at first adjustment in the first blank and the maximum P & I payment in the second blank.



Common Findings: Page 2 - Blocks 1 and 2

Understanding your estimated settlement charges	Your Adjusted Origination Charges	
	1. Our origination charge This charge is for getting this loan for you.	
	2. Your credit or charge (points) for the specific interest rate chosen <input type="checkbox"/> The credit or charge for the interest rate of <input type="text"/> % is included in "Our origination charge." (See item 1 above.) <input type="checkbox"/> You receive a credit of \$ <input type="text"/> for this interest rate of <input type="text"/> %. This credit reduces your settlement charges. <input type="checkbox"/> You pay a charge of \$ <input type="text"/> for this interest rate of <input type="text"/> %. This charge (points) increases your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.	
	A Your Adjusted Origination Charges	\$

- **Finding:** Increase outside of tolerance without documented changed circumstance.
- **Finding:** Boxes in Block 2 left unmarked.



Common Findings: GFE Page 2 - Block 1

Your Adjusted Origination Charges

1. Our origination charge This charge is for getting this loan for you.	
--	--

- Block is subject to ZERO TOLERANCE
- Fees may include, but are not limited to:
 - Administration fees
 - Application fee
 - Attorney fee
 - Commitment fee
 - Courier fee
 - Lender fees
 - Originator document preparation fee
 - Origination fee
 - Processing fee
 - Underwriting fee
 - Wire fee
 - YSP



Common Findings: GFE Page 2 - Block 2

<p>2. Your credit or charge (points) for the specific interest rate chosen</p> <p><input type="checkbox"/> The credit or charge for the interest rate of <input type="text"/> % is included in "Our origination charge." (See item 1 above.)</p> <p><input type="checkbox"/> You receive a credit of \$ <input type="text"/> for this interest rate of <input type="text"/> %. This credit reduces your settlement charges.</p> <p><input type="checkbox"/> You pay a charge of \$ <input type="text"/> for this interest rate of <input type="text"/> %. This charge (points) increases your total settlement charges.</p> <p>The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.</p>	
<p>A Your Adjusted Origination Charges</p>	<p>\$</p>

- Block is subject to ZERO TOLERANCE
- Only one box may be marked and at least one must be marked.
- For loan without broker, mark the first box indicating cost/credit for interest rate chosen is included in Our Origination Charge in Block 1.



Common Findings: GFE Page 2 - Block 2

2. Your credit or charge (points) for the specific interest rate chosen

- The credit or charge for the interest rate of % is included in "Our origination charge." (See item 1 above.)
- You receive a credit of \$ for this interest rate of %. This credit **reduces** your settlement charges.
- You pay a charge of \$ for this interest rate of %. This charge (points) **increases** your total settlement charges.

The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.

A

Your Adjusted Origination Charges

\$

- *"If charges reflected as Your Adjusted Origination Charge (A) remain consistent from initial to re-issued GFE, can the charges reflected in Blocks 1 and 2 change?"*
- Blocks 1 and 2 must be viewed **independently** of one another. Charges may not increase, or credit decrease, without an acceptable changed circumstance documented.



Common Findings: GFE Page 2 – Block 3

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.

Service

Charge

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

- Subject to a 10% tolerance
- Fees may include, but are not limited to the following:
 - Appraisal
 - Condo questionnaire fee
 - Credit Report
 - Flood Certification
 - PMI
 - MERS
 - Tax Service Fee
 - Include FHA UFMIP and VA funding fees here



Common Findings: GFE Page 2 – Block 3

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.

Service

Charge

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

- Update addressed in 4/02/10 FAQs page 32 #5:
 - Charges for VOE and VOD, if anticipated or known at the time of initial disclosure, should be placed in this Block.



Common Findings: GFE Page 2 – Block 4

4. Title services and lender's title insurance

This charge includes the services of a title or settlement agent, for example, and title insurance to protect the lender, if required.

- Subject to a 10% tolerance
- **Finding:** Charges misplaced on HUD settlement statement for fees disclosed in this Block.
 - Charges in Block 4 should be placed with fees subject to 10% tolerance on the HUD settlement statement.
 - Charges in Block 4 placed with Charges That Can Change on the HUD should be accompanied by a provider list.



Common Findings: GFE Page 2 – Block 5

5. Owner's title insurance

You may purchase an owner's title insurance policy to protect your interest in the property.

- Subject to a 10% tolerance
- An amount for owner's title insurance must be placed in this block for all Purchase transactions, regardless whether the fee is paid for by the buyer, seller, or any other party.
- For Refinance transactions, the originator may mark N/A.



Common Findings: GFE Page 2 – Block 6

6. Required services that you can shop for

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

Service

Charge

- Subject to a 10% tolerance
- Services include, but are not limited to:
 - Roof certification
 - Septic and well
 - Pest inspection
 - Survey



Common Findings: GFE Page 2 – Blocks 7 and 8

7. Government recording charges

These charges are for state and local fees to record your loan and title documents.

- Block 7 subject to 10% tolerance
- In this block, the loan originator must estimate state and government fees for recording the loan.

8. Transfer taxes

These charges are for state and local fees on mortgages and home sales.

- Block 8 subject to ZERO TOLERANCE



Common Findings: GFE Page 2 – Block 9

9. Initial deposit for your escrow account

This charge is held in an escrow account to pay future recurring charges on your property and includes all property taxes, all insurance, and other .

- **Finding:** Block left blank , with only total dollar amount listed in column.
- Block 9 should be completed with information related to the escrow account, if applicable.



Common Findings: GFE Page 2 – Block 10

10. 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. This amount is \$ per day for days (if your settlement is).

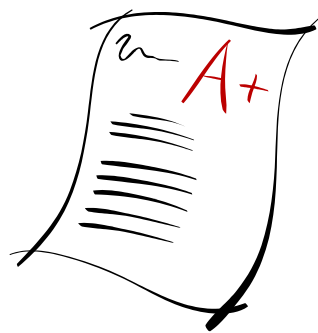
- **Finding:** 15 days of prepaid interest required for FHA loans not disclosed.
 - 15 days of prepaid interest must be disclosed on initial GFE only (does not apply to FHA streamline transactions).



Common Findings: GFE Page 2 – Block 11

11. Homeowner's insurance This charge is for the insurance you must buy for the property to protect from a loss, such as fire.	
<i>Policy</i>	<i>Charge</i>

- Uncommon to see errors with fee disclosure in this Block.



Common Findings: GFE Page 3 – Tradeoff Table

	The loan in this GFE	The same loan with lower settlement charges	The same loan with a lower interest rate
Your initial loan amount	\$	\$	\$
Your initial interest rate ¹	%	%	%
Your initial monthly amount owed	\$	\$	\$
Change in the monthly amount owed from this GFE	No change	You will pay \$ more every month	You will pay \$ less every month
Change in the amount you will pay at settlement with this interest rate	No change	Your settlement charges will be reduced by \$	Your settlement charges will increase by \$
How much your total estimated settlement charges will be	\$	\$	\$

- **Finding:** Column 1 of Tradeoff Table not completed.
- Originator must complete left column using figures from page 1 of GFE.
- Completion of remaining columns is not required.



Questions?

- We'll take a moment to answer a few questions before we move on.



Findings Related to GFE & HUD Settlement Statement (cont.)

- **Finding:** Increasing charges at settlement without documenting cost to cure
 - Credit not reflected on page 1 of HUD
or
 - Documentation of cost to cure provided from originator to borrower within 30 days of settlement not retained in file



Findings Related to GFE & HUD Settlement Statement (cont.)

- **Finding:** Use of 2009 GFE with 2010 HUD 1/1A
 - HUD states if the application was taken prior to 1/1/10 and the 2009 form of the GFE was used, the loan should close on the 2009 HUD. If, at any time the GFE is re-disclosed on the 2010 version of the form, the corresponding HUD 1 or HUD 1A must be used at settlement.

(FAQs 4/02/10 #4, page 7)



Disclosure of fees on HUD settlement statement

- **Q:** If a charge for a service disclosed on the GFE was not collected at closing, does that charge need to be reflected on the HUD settlement statement?
- **A:** No. If the fee was not charged or collected for at closing, there should be nothing reflected in that line on Page 2 of the HUD, and the estimate of charges should not appear on the comparison charge on Page 3 of the HUD.



Timing of Disclosure

- Rule for timing of disclosure of GFE did not change.
- GFE must be provided to borrower within 3 business days of initial application date.



How to document disclosure within 3 days

- “Acknowledgement of Receipt of the GFE” can accompany the GFE
 - Verifies date of disclosure to borrower
- Settlement Service Provider List also provides line for borrower to sign and date.
- Remember, a signature line CANNOT be added to the GFE disclosure.



Settlement Service Provider List

- When does a settlement service provider list need to be used?
 - Where loan originator permits borrower to shop for third party settlement services, originator must provide borrower with list on separate page.
 - If borrower chooses provider not on list, charges are not bound by tolerance.
 - Settlement Service Provider list can be provided for services covered in Blocks 4, 5, and 6.
 - Settlement Service Provider list (if used) must accompany initial GFE disclosure.



Documenting a Changed Circumstance

- Typically, GFE will be re-issued when information and/or charges are affected by:
 - Changes in settlement costs
 - Changes of loan program or figures
 - Borrower requested changes
- When locking loan, GFE must be reissued to update Important Dates section.



Documenting a Changed Circumstance

- A “changed circumstance” is defined by HUD as follows:
 1. Acts of God, war, disaster or other emergency
 2. Change in information particular to borrower or transaction that was relied on when issuing initial GFE
 3. New information particular to borrower or transaction that was not relied on in providing GFE
 4. Other circumstances that are particular to borrower or transaction, including boundary disputes, need for flood insurance, or environmental problems



Documenting a Changed Circumstance

- **Finding:** Fees increase beyond tolerance limitations without documented changed circumstance.
- Documentation may include the following information:
 1. Description of change
 2. Date of change (corresponds with re-issued GFE)
 3. Which Block(s) affected
 4. Prior fee and resulting fee



When must a new GFE be re-issued?

- If a revised GFE is to be provided, the loan originator must do so within 3 business days of receiving the information sufficient to establish the changed circumstance.
- 3 business days triggered from the time information is received by the originator, mortgage broker or the lender.



(FAQs Page 20 #11)



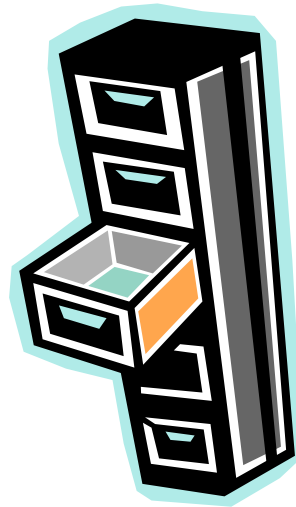
When must a new GFE be re-issued? (cont.)

- **Finding:** Re-issued GFE not provided when going from float to lock.
 - Important Dates section must be updated with lock information.
 - If fees have increased, or credit to borrower has decreased, re-issue must be done within three business days of receipt of lock information.



Documentation Retention

- The initial GFE and re-issued GFE disclosures, along with supporting documentation for applicable changed circumstances, must be retained for **3 years**.



Navigating your way through the GFE

- Complete the form in its entirety
- Watch disclosure dates (3 day rule)
- Document changes

and...

- Retain all information in your files



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- Red Flags Rule Implementation
- Agency Approval Services
- QC Plan Implementation
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- Focus Reviews
- Identity Verification

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Contact Information

- We will be answering a few of your questions in just a moment. Questions not addressed at this time will be emailed directly to you, as well as answered in our next newsletter. You are also welcome to contact us at any time:

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Resources

- HUD/FHA
 - <http://www.hud.gov>
- HUD RESPA Resources
 - http://www.hud.gov/offices/hsg/rmra/res/respa_hm.cfm
- New RESPA Rule FAQs (updated 4/2/2010)
 - <http://www.hud.gov/offices/hsg/rmra/res/resparulefaqs422010.pdf>
- RESPA Round Up
 - <http://www.hud.gov/offices/hsg/rmra/res/roundupjuly.pdf>
- Federal Trade Commission
 - <http://www.ftc.gov>
- MCA's GFE Cheat Sheet
 - <http://www.mortgagecomplianceadvisors.com/>



Questions & Answers



Questions & Answers

- **Q:** If the initial GFE is issued without Section 11 showing a charge for Homeowner's Insurance, either on a purchase or on a refinance; can this charge be added to a later GFE?
- **A:** Yes, Block 11 is not subject to tolerance and the charges associated with the Block may increase without limitation with re-issue of the disclosure.



Questions & Answers

- **Q:** How do you handle a situation where you initially disclose an appraisal fee to the applicant of \$375.00 on the GFE, but later when the file is run through FNMA DU, the loan is eligible for a Property Inspection Waiver resulting in no appraisal but a \$75.00 fee charged by FNMA? What impact does this have on the need to re-disclose on the GFE and how is it treated on the HUD-1?



Questions & Answers

- **A:** The GFE would not be required to be re-disclosed as the fee for the appraisal has decreased. Re-disclosure with a supporting changed circumstance is only required if the fees disclosed increase beyond allowable tolerances. Tolerance applies to aggregate of fees at disclosure and at settlement.



Questions & Answers

- **Q:** Appraisal value came in higher causing YSP to be higher....is there anyway we are able to get those fees without increasing box 1?
- **A:** If YSP increases due to lower LTV, the entire benefit should go directly to the borrower with an increase to credit in Block 2. The only time Block 1 may increase is if all, or a portion of, the charges in Block 1 were disclosed as a percentage of the loan amount and the loan amount increases.



Thank You!

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