

NATION'S HOUSING

New HUD rules aim to get rid of closing cost surprises

Starting Jan. 1, loan charges and settlement fees will be spelled out on a revised version of the good-faith estimates form that borrowers are supposed to get after their mortgage applications.

By Kenneth R. Harney

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Remember the bad old days of 11th-hour mortgage cost shocks and mystery junk-fee charges? Remember when the "good-faith estimates" your lender gave you upfront said closing costs would be about \$2,000, but somehow they ballooned to \$3,500 on the final closing sheet?

Worse yet, you had to come up with the extra money to handle the surprise costs or the home purchase or refinancing could not proceed.

Those days are still here -- consumers continue to be unprotected from closing cost shocks or intentional low-balling of fees -- but in about eight weeks the situation should change dramatically.

Although banks and mortgage lobbies are pushing hard for a delay, on Jan. 1 new federal rules adopted by the Department of Housing and Urban Development are scheduled to take effect covering home real estate and mortgage transactions nationwide. The rules have a blunt message for lenders and others who low-ball upfront estimates or lard on junk fees at closing: Play games like that, and you -- not your hapless customers -- will have to eat the difference.

Here's what's about to happen: Starting Jan. 1, loan charges and settlement fees will be spelled out on a revised, more consumer-friendly version of the good-faith estimates form that borrowers are supposed to receive within three days of their mortgage applications. Charges will fall into three broad categories on the form:

- * Fees that cannot increase from upfront estimates to final closing.
- * Fee estimates that come with wiggle room, and can increase by as much as 10% in the aggregate from upfront estimates.
- * Fees that can increase without limit, mainly because the lender has no control over them or because the amount is difficult to predict weeks in advance.

Charges in the zero-increase category include the lender's or broker's mortgage origination, processing and underwriting charges, where junk fees sometimes sprout out of nowhere -- or increase significantly -- from upfront estimates to closing. Also in this category are the lender's or broker's loan discount charge or "points" based on the interest rate quoted to the borrower, and local transfer taxes.

Charges subject to a 10% aggregate increase include services required by the lender but in which the lender chooses the providers, such as appraisals; expenses such as lender's title insurance and settlement services in which the borrower chooses a firm on a list approved by the lender; owner's title insurance when the borrower chooses a company on the lender's approved list; and recording charges by local governments.

Although any one of these items can increase more than 10% from the upfront estimate to closing, the combined total of all the fees in this category cannot jump more than 10%. This is crucial, especially in title insurance and settlement charges, in which some of the biggest surprises pop up at closing.

Charges that can increase without limit include lender-required services in which the borrowers choose a title insurance, escrow or other settlement company that is not on the lender's list; the cost of homeowners hazard insurance; daily interest charges on the loan; and the amount of the initial deposit by the borrower into an escrow account.

Besides getting rid of closing cost surprises, the new good-faith estimate encourages loan applicants to shop around before committing to a particular lender. The form includes space for comparing as many as four lenders' good-faith estimates on interest rates, rate locks, prepayment penalties or balloon payments, among other factors. The cost estimates you receive from each competitor are required to remain available for 10 business days. Interest rates can change unless locked by the lender and borrower.

Paired with the new good-faith estimate rules scheduled for Jan. 1 will be a new standard closing cost statement, the "HUD-1." Unlike the settlement statements in use today, the revised HUD-1 is hard-wired into the good-faith estimates to allow consumers to directly compare what they were told upfront by the lender with what they're being asked to pay at closing. The final page of the new form itemizes the three categories of fees from the good-faith estimate and compares them line by line with the actual fees at closing.

Still another pro-consumer feature of the new HUD-1: For the first time ever, it requires disclosure of the widely misunderstood fee splits of title insurance premiums between the insurance underwriter -- the company insuring the title -- and the title agent, who is often the settlement agent. Consumers may be stunned to learn that in some markets, 80% to 90% or more of the premium they pay at closing actually goes to the agent -- not to pay for the insurance.

kenharney@earthlink.net

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