Beth Mann Real Estate Law

CLOSING CHANGES RECAP

October 2015

Part 1

Why:

Millions of people signed up for loans they did not understand and ended up losing their homes

CFPB:

Consumer Financial Protection Bureau - brought into existence by Congress when it passed the Dodd-Frank Act 2010. PURPOSE: Protect people from predatory lending

Three (3) Forms at closing you are familiar with but **will no longer be use**d:

1. Good Faith Estimate
2. Truth-in-Lending
3. HUD-1

These are replaced by:

1. **Loan Estimate Form** - explains mortgage terms and provides estimate of loan fees
2. **Closing Disclosure Form** - short, easy to read account of the final transaction (contains closing costs, fees & loan terms

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Part 2

WHY CLOSING CHANGES?

Previously:

- Lender & title companies could change their estimate about the cost of a loan without being accountable for change.
    - **Result** - sometimes people were asked to pay more $ at closing than expected

NEW FORMS :

- Buyers will see which fees are changeable and which ones are not

    ****Bonus**-**

    1. It is easier to compare loan options
    2. A buyer can see what's changed between the loan application and closing

MECHANICS - you need to know this*:**

- Lenders are **required** to give a loan estimate to a borrower 3 business days after a loan app is taken
- A closing document **MUST** be provided 3 days before the scheduled closing date

Side note:

- The task will not be delegated to title companies
- **Generous 3 day period to look at closing docs and ask questions about what they say**

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Part 3

NEW PROCEDURE

Lenders start the loan process by asking borrowers on loan app for specific info:

1. Names & Socials of all borrowers
2. Income
3. Property value, address
4. Amount of loan

After this info is provided . . .

- The lender has 3 business days to use the information and generate a loan estimate
- The borrowers then are required to start the underwriting process by giving the lender a signed intent to proceed

PREVIOUSLY:

- Lenders could gather documentation from a borrower and the borrower could pay for an appraisal before providing a good faith estimate

NOW**:**

- Lenders can only charge for credit report
- ***** No info provided from a borrower can be verified until after the loan estimate has been created & borrower has singed an intent to proceed form.

BIGGEST PROBLEM:

- The three (3) day clock for lenders can RESTART MULTIPLE times until all info is there & the borrower has time to look at it . . .
- Means - SLOWER
- BUT -****Borrowers won't be put in the position of getting to a closing and being told they need more $$ before the end of the day to close.

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Part 4

What can trigger delays?

- ***Anything involving a change to the loan itself

  a) switching from fixed to Arm

  b) change in APR (annual percentage rate) = to greater than 1/8 of a point - if it comes AFTER closing doc is generated

ISSUES:

- The new form highlights title insurance as optional (title insurance is one of the most important products for a buyer) - the form says nothing about recommending it
- The new form is not state specific for title insurance either (ie who pays owner policy)

Why was it delayed?

Not all members of the American Bankers Assn have the new software in place designed for the new rule

20% of banks said in a survey - they do not want to offer mortgage products not yet supported by the software system

*****Simplification for those who want loans means more work for those who process them

REALISTICALLY . . . :

All the changes should make the mortgage process more transparent and understandable than it has ever been

A mortgage may be the most important financial decision most people make. The new rules should help make this financial decision in an informed way.

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