Wells Fargo Wholesale Lending

WELLS FARGO HOME MORTGAGE

RESPA Reform

A guide to understanding the new requirements and corresponding impacts

As the mortgage industry continues to implement changes that help provide borrowers the essential information and adequate time to understand their home purchase or refinance options, it's our goal to continue to keep consumers – and of course you, our industry colleagues – informed.

A few months ago, we reached out across the United States to educate individuals and organizations on the timeline impacts resulting from the May 2009 Home Valuation Code of Conduct (HVCC) changes, and the Housing and Economic Recovery Act (HERA) requirements that took effect July 30, 2009. Now we're reaching out to provide you with details regarding what is known as ***RESPA*** (Real Estate Settlement Procedures Act) ***Reform.***

What is RESPA Reform?

RESPA Reform was enacted by the U.S. Department of Housing and Urban Development (HUD) with the intent to help protect borrowers applying for home financing by standardizing the industry and:

- providing for a more thorough explanation and disclosure of key loan terms and settlement charges [via revisions to the Good Faith Estimate (GFE) and Settlement Statement (HUD-1)];
- including a side-by-side chart (on the new page 3 of the HUD-1) to help compare the estimated charges shown on the GFE with the actual charges at closing; and
- requiring that fees not increase between issuance of the GFE and closing except under limited circumstances.

RESPA Reform:

- *Applies to all lenders and mortgage brokers*
- *Mandatory by January 1, 2010*
- *Wells Fargo Home Mortgage will implement for all new applications with a property identified beginning mid-December 2009*

Together we'll go far

RESPA Reform

The goal: more informed borrowers

The objective of the many new government requirements that relate to home financing is to provide information that can help every home buyer or owner make better home financing decisions.
For example:

- **HVCC** – ensures that borrowers have sufficient notice of appraisal content and promotes the accuracy of appraisals by shielding appraisers from undue influence;
- **HERA Mortgage Disclosure Improvement Act (MDIA)** – protects borrowers by making them more informed and confident in their home financing choices by specifying timing in regard to initial disclosures, fee collection and final disclosures; and
- **RESPA Reform** (the most recent government requirement) – intends to help borrowers avoid surprises at closing by placing tolerance levels on all charges for services associated with obtaining the mortgage where the vendor is not borrower-selected.

The impacts: changes to the transaction

Certainly, the May 2009, HVCC and the July 2009, HERA MDIA requirements may both impact the loan closing timeline. RESPA Reform may also influence the timeline and certainly has many process impacts for lenders, settlement agents and attorneys. However, the transaction experience for the consumer and other parties should remain relatively unchanged.

Details on three of the new RESPA Reform requirements and corresponding impacts:

1 New RESPA Reform GFE

Beginning January 1, 2010, HUD will require all lenders and mortgage brokers to provide borrowers with the new RESPA Reform GFE on any application that is taken on or after January 1, 2010 with a property identified. Additionally, settlement agents and attorneys will be required to provide borrowers with the new RESPA Reform HUD-1 settlement statement that closely aligns with the new GFE.

Each lender can decide if or when to implement the new form prior to the required date of January 1, 2010. **Wells Fargo Wholesale Lending will implement these changes mid-December 2009 and accept the current GFE or the new RESPA Reform GFE to be used for any application that is taken beginning mid-December through December 31, 2009, with a property identified. On January 1, 2010, only the new RESPA Reform GFE will be accepted.** For any loan where the new GFE form is used, the new HUD-1 form must also be used, even if the closing is prior to January 1, 2010. Therefore, we will be working closely with settlement agents and attorneys to ensure adherence.

Broker impacts:
Brokers will issue the original GFE to the borrower, and Wells Fargo Home Mortgage will issue any subsequent GFEs once we receive the application for the traditional lines of business. Brokers will issue all GFEs for the enhanced lines of business. The new GFE should help borrowers avoid surprise charges at settlement, have the ability to shop for the best loan, and ultimately feel more comfortable with their decision.

RESPA Reform, *continued*

So that you are familiar, we have detailed what each page consists of and also provided visuals of the new GFE below. NOTE: It is critical that all lines of the GFE are completed before Wells Fargo Home Mortgage can accept it.

Page 1:

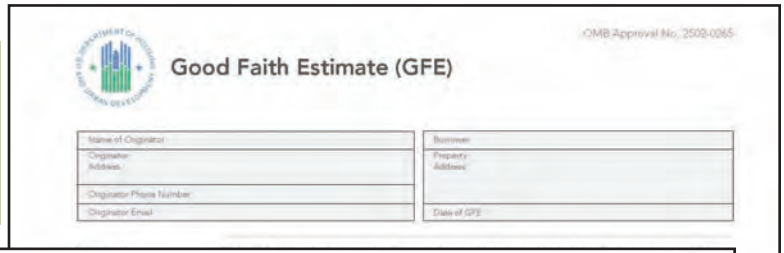
Summarizes key loan information, details escrow information and displays the total estimated settlement charges associated with obtaining the mortgage so the borrower can compare loan terms.

Page 2:

Estimates total settlement charges associated with obtaining the mortgage, breaking them down into 11 sections of charges. All charges are displayed as dollars, not percentages. (NOTE: The GFE does not provide a figure that represents the downpayment or the cash the borrower will need to bring to closing.)

Page 3:

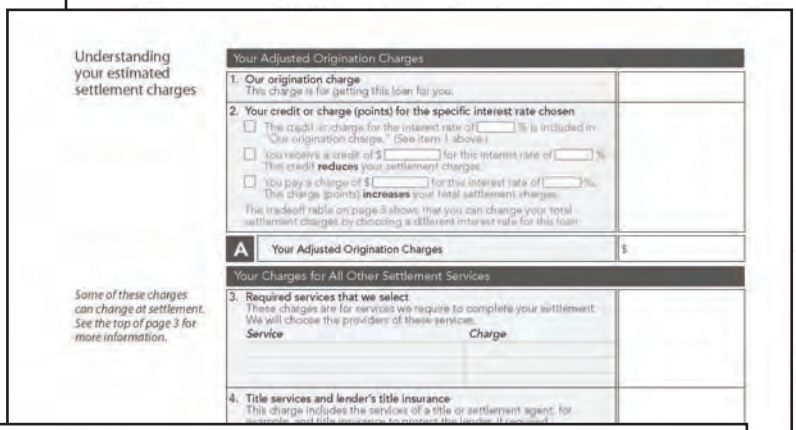
Is an instructional page designed to help borrowers understand their loan and its associated fees. Borrowers can use the shopping guide to document and compare charges from other lenders.



OMB Approval No. 2502-0265

Good Faith Estimate (GFE)

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

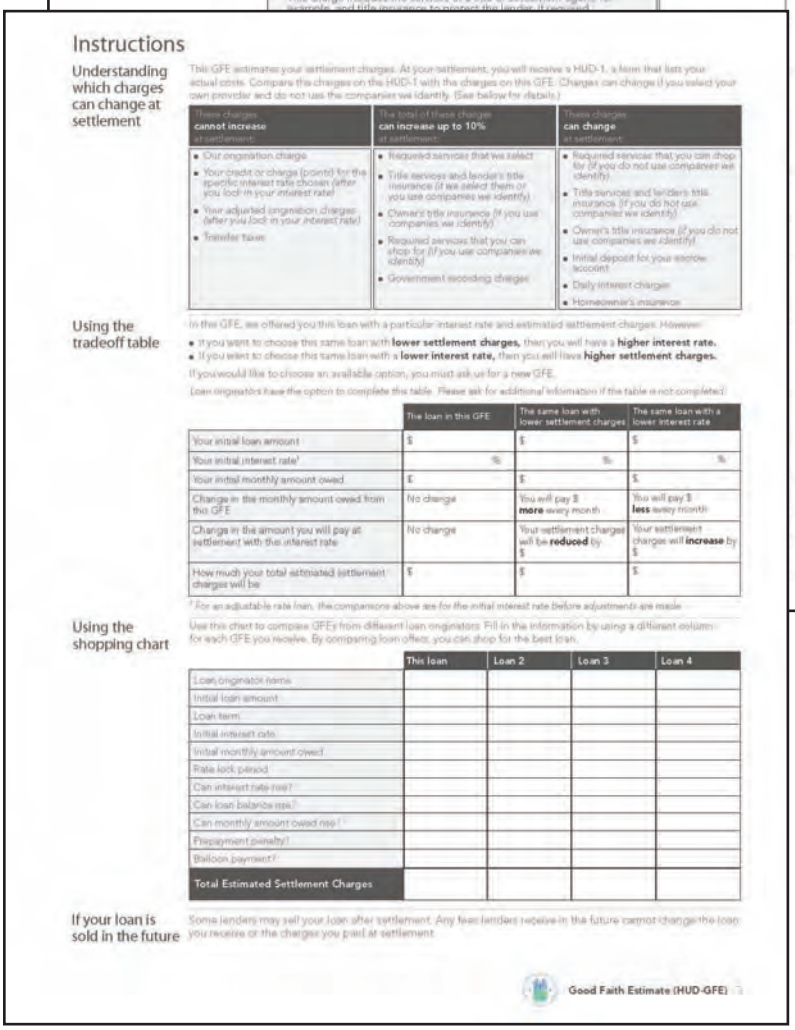


Understanding your estimated settlement charges

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 ☐ 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	$

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. *Service* *Charge*	
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	

Some of these charges can change at settlement. See the top of page 3 for more information.



Instructions

Understanding which charges can change at settlement

This GFE estimates your settlement charges. At your settlement, you will receive a HUD-1, a form that lists your actual costs. 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 we identify. (See below for details.)

These charges **cannot increase** at settlement	The total of these charges **can increase up to 10%** at settlement	These charges **can change** at settlement
• Our origination charge • Your credit or charge (points) for the specific interest rate chosen (after you lock in your interest rate) • Your adjusted origination charges (after you lock in your interest rate) • Transfer taxes	• Required services that we select • Title services and lender's title insurance (if we select them or you use companies we identify) • Owner's title insurance (if you use companies we identify) • Required services that you can shop for (if you use companies we identify) • Government recording charges	• Required services that you can shop for (if you do not use companies we identify) • Title services and lenders title insurance (if you do not use companies we identify) • Owner's title insurance (if you do not use companies we identify) • Initial deposit for your escrow account • Daily interest charges • Homeowner's insurance

Using the tradeoff table

In the GFE, we offered you this loan with a particular interest rate and estimated settlement charges. However:

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

If you would like to choose an available option, you must ask us for a new GFE.

Loan originators have the option to complete this table. Please ask for additional information if the table is not completed.

	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*	%	%	%
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 the 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	$	$	$

* For an adjustable rate loan, the comparisons above are for the initial interest rate before adjustments are made.

Using the shopping chart

Use this chart to compare 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.

	This loan	Loan 2	Loan 3	Loan 4
Loan originator name				
Initial loan amount				
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

Some lenders may sell your loan after settlement. Any fees lenders receive in the future cannot change the loan you receive or the charges you paid at settlement.

Good Faith Estimate (HUD-GFE)

*Wells Fargo Home Mortgage will provide every customer with a cover letter and proprietary instructional booklet titled, "**A Guide to Understanding Your Good Faith Estimate**" for loans with traditional brokers that we issue a revised GFE.*

RESPA Reform, *continued*

2 New RESPA Reform HUD-1

The new Settlement Statement (HUD-1) will increase from two to three pages and will include a side-by-side comparison chart to help borrowers compare final loan terms disclosed on the latest GFE with the charges shown on the HUD-1.

Broker impacts:

Broker charges are disclosed on the HUD-1, so they should provide fee information directly to the settlement agent or attorney as early in the process as possible to avoid delays. For your borrowers, this new form should help them avoid surprises at settlement and make them feel more comfortable about their decision since they will be presented with information to compare charges disclosed during the application process to the actual costs charged at closing.

Page 1:

Contains only minor formatting changes.

Page 2:

Renumbers and consolidates many charges differently than in the past and displays all charges as dollars, not percentages.

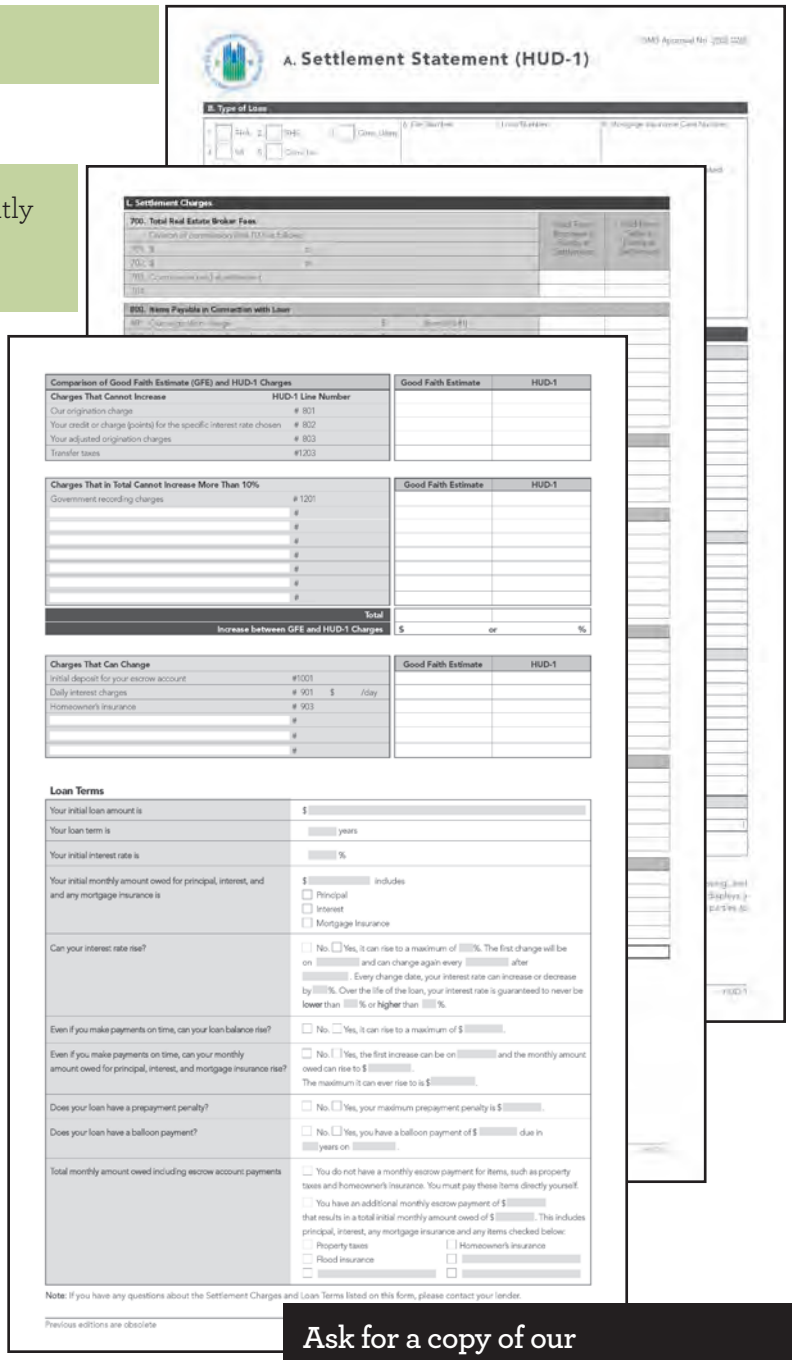
Page 3:

Has been added to allow borrowers to compare charges disclosed on the latest GFE with actual costs charged on the HUD-1. This side-by-side comparison displays charges in categories as shown here.

Page 4:

Wells Fargo Home Mortgage addition:

Because secondary market investors typically require a borrower signature , for your convenience, Wells Fargo Home Mortgage - and likely other lenders - will add a signature and date page to the new HUD-1. This means that settlement agents and attorneys will be required to obtain the borrowers' and, if applicable, sellers' signatures and submit the final signed HUD-1 back to Wells Fargo Home Mortgage after closing.


A. Settlement Statement (HUD-1)

B. Type of Loan

L. Settlement Charges

700. Total Real Estate Broker Fees

800. Items Payable in Connection with Loan

Comparison of Good Faith Estimate (GFE) and HUD-1 Charges		Good Faith Estimate	HUD-1
Charges That Cannot Increase	HUD-1 Line Number		
Our origination charge	# 801		
Your credit or charge (points) for the specific interest rate chosen	# 802		
Your adjusted origination charges	# 803		
Transfer taxes	#1203		
Charges That in Total Cannot Increase More Than 10%		Good Faith Estimate	HUD-1
Government recording charges	# 1201		
Total			
Increase between GFE and HUD-1 Charges		$ or %	
Charges That Can Change		Good Faith Estimate	HUD-1
Initial deposit for your escrow account	#1001		
Daily interest charges	# 901 $ /day		
Homeowner's Insurance	# 903		

Loan Terms

Your initial loan amount is	$
Your loan term is	years
Your initial interest rate is	%
Your initial monthly amount owed for principal, interest, and and any mortgage insurance is	$ includes ☐ Principal ☐ Interest ☐ Mortgage Insurance
Can your interest rate rise?	☐ No. ☐ Yes, it can rise to a maximum of %. The first change will be on and can change again every after . Every change date, your interest rate can increase or decrease by %. Over the life of the loan, your interest rate is guaranteed to never be lower than % or higher than %.
Even if you make payments on time, can your loan balance rise?	☐ No. ☐ Yes, it can rise to a maximum of $
Even if you make payments on time, can your monthly amount owed for principal, interest, and mortgage insurance rise?	☐ No. ☐ Yes, the first increase can be on and the monthly amount owed can rise to $. The maximum it can ever rise to is $
Does your loan have a prepayment penalty?	☐ No. ☐ Yes, your maximum prepayment penalty is $
Does your loan have a balloon payment?	☐ No. ☐ Yes, you have a balloon payment of $ due in years on
Total monthly amount owed including escrow account payments	☐ You do not have a monthly escrow payment for items, such as property taxes and homeowner's insurance. You must pay these items directly yourself. ☐ You have an additional monthly escrow payment of $ that results in a total initial monthly amount owed of $. This includes principal, interest, any mortgage insurance and any items checked below: ☐ Property taxes ☐ Homeowner's insurance ☐ Flood insurance

Note: If you have any questions about the Settlement Charges and Loan Terms listed on this form, please contact your lender.

Previous editions are obsolete

Ask for a copy of our "RESPA Reform: A closing agent's guide to working with Wells Fargo Home Mortgage"

3 Timeline impact

In the event the HUD-1 shows an increase in a charge* (to a lender and/or third-party fee) versus what was reflected on the latest GFE, the closing may be delayed. The lender will need time to work with the settlement agent or attorney to determine if the change requires a revision to the GFE. If a new GFE is required, it must be provided to the borrower within three business days of Wells Fargo Home Mortgage's notice of the changed circumstance AND **at least one business day prior to closing**. If the disclosure is mailed, an additional 3 days mail wait is required. This way the borrower can review/understand the increased charge(s) prior to closing. Therefore, it is crucial for brokers to inform Wells Fargo Home Mortgage immediately if they become aware of anything that may cause fees to increase. **NOTE:** Due to the previously implemented HERA Mortgage Disclosure Improvement Act, the closing delay may be extended up to six business days if/when the increased charge(s) causes the APR to increase by more than .125%.

Example of allowable fee increase:
A fee increase can only be charged to the borrower if it occurred due to what HUD refers to as a "valid changed circumstance." For example, if the borrower chooses to make a significant change to his or her loan (such as a product change) or if a full review of the appraisal results in discovery that a survey is required, a "valid changed circumstance" has occurred, and the associated fee increases can be charged to the borrower (if a new GFE is properly issued that reflects the new fees). Another example is if a power of attorney is needed for a borrower who cannot attend the closing.

Broker impacts:

In the event a revised GFE must be provided to the borrower, then the borrrower must be allowed at least one business day to review it prior to closing. If the APR increases more than .125%, the Truth in Lending (TIL) disclosure must be reissued (we call it a PreClosing TIL) at least six business days prior to closing. This allows three business days for mailing and provides the borrower with the time required to determine if they are comfortable with their loan decision. (You can be assured we'll do everything we can to expedite the delivery.)

For your borrowers, there may be some frustration over the course of the transaction if they receive multiple GFEs due to revisions. It is important to always refer to the most recent GFE they have received for up-to-date details and to help avoid surprises. At closing, the opportunity for the borrowers to compare the fees between the GFE and the HUD-1 should be simpler.

The descriptions above are based on Wells Fargo Home Mortgage's interpretations and processes around RESPA Reform. REALTORS, Builders and settlement service providers should consult with their own attorneys about direct impacts to their business.

Frequently asked questions

1. Does RESPA Reform apply to all loan types?
No. It applies to all open-end and closed-end loans but does not apply to home equity lines of credit.

2. At what point can a lender/mortgage broker collect upfront fees?
An applicant must receive his or her initial disclosures before upfront fees can be collected from that applicant. The only exception is the credit report fee which can be collected at application.

3. What if the settlement agent that the mortgage broker or borrower prefers to use is unable to fulfill on the expectations Wells Fargo Home Mortgage has set forth in our closing agent instructions?
In any such case, another settlement agent or attorney who can execute based on our closing agent instrutions will need to be selected.

4. Is there anything mortgage brokers need to look for with settlement agents or attorneys?
We recommend talking to the settlement agents or attorneys right away about the RESPA Reform requirements to ensure they are prepared to issue the new HUD-1 as required. This may help avoid the possibility of having to select a new closing agent midstream which could impact the closing date.

5. Is a GFE a loan commitment?
No, the GFE is not a loan commitment. A GFE is an estimate of the total charges associated with obtaining the loan, regardless of who is responsible for paying each of those charges, but neither the borrower nor the lender is obligated to enter into the loan. Lenders and mortgage brokers are bound to the charges quoted on the GFE unless a valid changed circumstance arises or the borrower chooses to cancel the transaction.

6. If a charge on the HUD-1 is less than the charge on the GFE, could this cause a delay in the closing?
No. It is permissible for charges to the borrower to decrease without a need for the GFE to be reissued or the closing to be delayed.

7. Are there additional impacts to new construction loans?
In transactions involving new home purchases where settlement is anticipated to occur more than 60 calendar days from the time the GFE is provided, the loan originator may provide the GFE to the borrower with a disclosure stating that at any time up until 60 calendar days prior to closing, a revised GFE may be issued, even without changed circumstances.

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