Wells Fargo Wholesale Lending

WELLS FARGO HOME MORTGAGE

How the new government regulations may impact closing dates

The mortgage industry is certainly undergoing many changes to help provide homebuyers better information when it comes to financing a home. We're providing this document to help you understand some of the new regulations and investor requirements that are taking effect — especially those that impact timelines. Wells Fargo Wholesale Lending is dedicated to working with our industry colleagues to help ensure these changes do not detract from an outstanding experience for our mutual customers.

HERA-MDIA and HVCC — background information

In 2008, amendments to the Home Ownership and Equity Protection Act (HOEPA) and the Housing and Economic Recovery Act (HERA) were passed by Congress, and the Federal Reserve Board published the regulations under the Truth in Lending Act. These regulations were written to provide a more transparent, level and fair regulation of the real estate industry; to add additional steps to help prevent deceptive lending practices; and to protect consumers by making them more informed — and therefore more confident — in their home financing choices. In addition, Fannie Mae and Freddie Mac adopted the Home Valuation Code of Conduct (HVCC) in 2008 to reinforce appraiser independence, valuation protections, and enhance the overall integrity of the valuation process.

Effective May 1, 2009

HVCC: Promotes the accuracy of appraisals by shielding appraisers from undue influence, and ensuring that borrowers have sufficient notice of appraisal content by requiring that borrowers receive a copy of their appraisal reports no less than 3 business days prior to the closing of their loan absent a borrower waiver of this requirement.

Effective July 30, 2009

HERA-MDIA: Amends the Truth in Lending Act (TILA), implemented through Regulation Z. Has a number of provisions including the Mortgage Disclosure Improvement Act, which changes the Truth in Lending Act requirements surrounding early and final disclosures to homebuyers and addresses the timing of when fees can be charged.

Together we'll go far

Four key elements you need to know

1 If the borrower is financing the property, these new regulatory and investor guidelines will impact — and could even dictate — the closing date.

Historically, borrowers and sellers would agree on a closing date, and then service providers – including lenders – would work as best they could toward meeting that date. Going forward, contracts can still be written with a specific closing date in mind, but all parties need to take into account that the earliest any home financing transaction can close is ***7 business days after*** the borrower is issued his or her initial mortgage disclosures from the lender. (Note: At Wells Fargo Home Mortgage, Saturdays, with the exception of Federal holidays, do count as a business day for the purpose of disclosures only.)

Wait requirement period	Required wait time (in business days)
1. Initial disclosure review	7 days after overnight
2. Upfront fee collection	2 days after overnight
3. Borrower appraisal review	3 days to mail plus 3 days to review prior to closing
4. APR change of .125 plus TIL re-issue	3 days to mail plus 3 days to review prior to closing

2 Upfront fees cannot be collected by the mortgage broker/originator (except for a credit report fee) until the initial disclosures are received by the borrower. Disclosures are considered "received" 1 full business day after the disclosures are overnighted, allowing the fees to be collected on the second business day.

Historically, upfront fees could be collected immediately. Starting July 30, 2009, upfront fees cannot be collected from the borrower, including the appraisal fee, until 2 business days after Wells Fargo Wholesale Lending issues the initial disclosures. (Note: Enhanced and Table Fund brokers can collect fees after the borrower has received the initial disclosures provided by the broker.) The only exception is the credit report fee which can be collected at application.

3 The borrower must be provided with a copy of his or her appraisal a minimum of *3 business days prior* to closing. The appraisal is considered "received" 3 business days after mailing.

To help expedite the process, Wells Fargo Home Mortgage has elected to have a copy of the appraisal issued directly to the borrower – and the borrower must receive the appraisal at least ***3 business days prior*** to the mortgage closing. This means the borrower may receive his or her appraisal before or simultaneous to the mortgage broker/originator receiving their copy. If the borrower believes the 3-business-day required review period is not necessary for whatever reason, he or she has the right to waive that requirement.

4 An increase of more than .125% in the Annual Percentage Rate (APR) from the initial Truth in Lending disclosure (TIL) requires the TIL disclosure to be revised and reissued to the borrower. The borrower must receive a revised TIL disclosure at least 3 business days before closing, providing the borrower with the time required to determine if the borrower is comfortable with his or her loan choice. Again, the TIL disclosure is considered "received" 3 business days after mailing.

A more typical contract date may be 30-45 days — or possibly longer (such as with a new construction loan). Considering that many things occur and may be changed or finalized throughout the course of the transaction, there are a number of things that can impact the borrower's APR. Therefore it is critical on the front end to ensure that estimated fees are as accurate as possible.

Potential impacts to the APR

- Unlocked rate
- Change in loan amount
- Product change
- Change in closing date
- Changes to fees, inclusive of settlement agent fees

The new mortgage process and timeline

Perhaps the easiest way to understand the new process and timelines required by these laws for a primary residence or second home financing transaction is with a calendar.
Since most transactions are not "rush" deals - but rather close in a 30-45 day timeframe, the calendar below illustrates a desired 30-day close. It is wise to plan for at least a 30-day close.

Other assumptions in the illustration below:

- The borrower applies on the first of the month.
- The broker/originator locks in the interest rate at least 7 business days prior to the desired close date of the 30th of the month.
- A home equity loan was not added to the transaction (doing so would require the same disclosure timelines to start for the home equity loan).
- The estimated fees increased the APR more than .125% requiring a re-disclosure of the TIL (the revised APR was final).
- The appraisal was ordered and came in at or above value, and the borrower received his or her copy at least 3 business days prior to the desired close date of the 30th of the month.
- The borrower signs and closes on the 30th of the month (the last day of the required final disclosure review period).

Note: *Saturdays are considered a business day only for the purposes of disclosures, unless they are a federal holiday.*

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		30 Borrower finalizes contract of sale on a residential property	1 Broker/originator registers and locks the loan (30-day lock)	2	3	4 Federal holiday
5	6 Wells Fargo receives loan package; initial disclosures overnighted to borrower initial disclosures Day 0	7 Initial disclosures Day 1 Earliest date allowed to collect upfront fees	8 Initial disclosures Day 2	9 Initial disclosures Day 3	10 Initial disclosures Day 4	11 Initial disclosures Day 5
12	13 Initial disclosures Day 6	14 Initial disclosures Day 7 Earliest date to close per initial disclosure review period	15 Appraisal complete Appraisal Mail Day 0	16 Appraisal Mail Day 1 Ideally rate locked at least 7 business days prior to close	17 Appraisal Mail Day 2	18 Appraisal Mail Day 3 Appraisal Review Day 1
19	20 Appraisal Review Day 2	21 Appraisal Review Day 3	22 Earliest date allowed to close per appraisal review period	23 APR is final Revised TIL mailed to borrower TIL Mail Day 0.	24 TIL Mail Day 1	25 TIL Mail Day 2
26	27 TIL Mail Day 3 - TIL received TIL Review Day 0	28 TIL Review Day 1	29 TIL Review Day 2	30 TIL Review Day 3 Borrower can sign/close	31	

Working together to ensure timely closings - everyone plays a key role

Borrower	REALTOR®/Builder	Mortgage Broker/ Originator	Settlement Agent/ Attorney
• Obtain a credit-checked preapproval before you start to shop for a home. • Review the timeline and potential impacts with your mortgage broker/originator so you can keep your REALTOR® or Builder informed. It is wise to plan for at least a 30-day close. • Make sure to pose any questions to your mortgage broker/originator. • Know that these new regulations and investor requirements are in place to ensure you have time to consider your loan choice and feel confident to move forward. • Understand that the interest rate on your loan impacts the APR. This means that until you lock in your rate, an exact APR cannot be determined. Minimally plan on locking at least 7 business days prior to the date you wish to close. • Understand that a change in mortgage product could impact your APR and therefore your estimated closing date. • Understand that changes in fees by third parties such as your settlement agent could also impact your closing date.	• Set realistic expectations upfront and throughout the transaction with the listing agent, the seller and the borrower in regards to potential closing dates. It is wise to plan for at least a 30-day close. • Discuss these new provisions with your settlement agents immediately to avoid unnecessary delays down the road. It is critical that any third party fees that impact the APR are accurate because any change of fees that increases the APR more than .125% will require a re-disclosure of the TIL — allowing 6 business days before the transaction can close. This allows 3 business days for mailing and provides the borrower 3 business days to determine if they are comfortable with their loan choice. • Provide the settlement agent information to the mortgage broker/originator as early in the process as possible. • Make sure the borrowers understand that their interest rate impacts their APR and that until that rate is locked (which is at their discretion), the APR may change, so a subsequent TIL disclosure will likely be needed.	• Help borrowers understand timelines and anything that can impact their closing date including changes to the APR. It is wise to encourage borrowers, REALTORS®, and Builders to plan for at least a 30-day close. • Take applications and help borrowers understand their product options. • Issue borrowers their initial disclosures. • Collect fees and request the appraisal. (Note: fees cannot be collected until 4 business days after the borrower has been issued his or her initial TIL from the lender. The only exception is the credit report fee which can be collected at application.) • Ensure the loan is locked at least 7 business days prior to the desired close date. • Understand that any change to fees that impacts the APR could lead to a required re-disclosure of the TIL. If the APR increases more than .125% then the lender must re-disclose the TIL 6 business days before the transaction can close. This allows 3 business days for mailing and provides the borrowers 3 business days to determine if they are comfortable with their loan choice.	• Make sure any third party fees that impact the APR are accurate – understanding any change to fees that impact the APR could lead to a required re-disclosure of the TIL (if they collectively increase the APR more than .125%). The re-disclosure requires the borrower be given an additional 3 business days review period prior to closing, after receipt. • Work proactively on providing a preliminary HUD with accurate fees to lenders enabling them to issue the TIL 6 business days prior to the scheduled closing date. This allows 3 business days for mailing and provides the borrowers 3 business days to determine if they are comfortable with their loan choice.

The best way to possibly expedite the close is to lock in the rate and fees as soon as possible.

Frequently asked questions

1. Do these new requirements impact applications or registrations taken on or after July 30, 2009?

- For HVCC, registrations taken prior to May 1, 2009 are not impacted.
- For HERA-MDIA, registrations taken prior to July 30, 2009 are not impacted.

2. Does the issuance of the initial disclosure, re-disclosure and fee collection timing requirements apply to investment properties?

We are applying the initial disclosure and fee collection requirements to investment properties, but not the TIL re-disclosure requirement.

3. Do the disclosure wait periods begin when the broker provides disclosures or when Wells Fargo Home Mortgage issues disclosures?

The disclosure wait periods, both for initial disclosures as well as re-disclosure, begin when Wells Fargo Home Mortgage sends the disclosures to the borrower. However, the wait periods for Table Fund and Enhanced loans will be based off the broker's issue/print date of the initial and subsequent Truth In Lending disclosures.

4. The final TIL must be received 3 business days prior to closing. Is that 3 full days?

Remember, we must allow 3 business days for mailing, then the borrowers have the 3-business-day review period required to determine if they are comfortable with their loan choice. Closing can occur on the third business day of the review period.

5. What if the borrower adds a home equity loan or line of credit after the initial application? How are disclosures impacted?

- **Home equity loan:** The initial disclosure period starts over and all disclosures must be issued for the home equity loan.
- **Home equity line of credit:** There is no impact.

6. How do these new regulations impact escrow states?

Brokers doing business in escrow states will need to adapt to the new regulations by providing an initial HUD-1 before closing documents are released. In addition, fees can no longer be estimated. If fees change and result in an increase in the APR of more than .125%, it will result in re-disclosure of the TIL and delay the signing/closing date by 6 business days.

7. Can last minute/rush deals still be accommodated?

The new regulations and investor guidelines definitely redefine "rush." The minimum number of days to close a transaction is 7 business days after Wells Fargo Wholesale Lending issues the initial disclosures to the borrower. Remember, however, this would be a best-case scenario. If the APR increases by more than .125%, an updated TIL will be required and will add an additional 6 business days to the timing. This allows 3 business days for mailing and provides the borrowers 3 business days to determine if they are comfortable with their loan choice. It is wise to plan on a minimum of 30 days to close.

8. Can the credit report fees be collected at the time of preapproval applications?

Yes. The credit report fee is the only fee that can be collected at a preapproval.

9. How do you know if the initial APR has to be re-disclosed?

An APR increase of more than .125% from the initial TIL requires re-disclosure of the new and final APR via the Truth in Lending (TIL) disclosure a minimum of 6 business days prior to the close date. If the change is less than or equal to .125%, then no re-disclosure is required.

10. For the purpose of these new disclosure timelines, what is considered a business day?

At Wells Fargo Home Mortgage, all weekdays and Saturdays are considered a business day unless it is a Federal holiday.

11. Can the TIL re-disclosure be sent within the 7-business-day period from when the initial disclosures are issued?

Yes, the required re-disclosure of the TIL can be sent within the first 7-business-day period.

12. Can the loan be locked at the time of registration if fees have not been collected yet?

Yes.

13. Do these regulations and investor requirements only impact purchase transactions or are refinances subject to these same guidelines?

Both purchase and refinance transactions are impacted.

14. Is the 3-business-day right of rescission still in effect?

Yes, the right of rescission is still in effect for refinance transactions. The loan can close 3 business days after any TIL re-disclosure is received by the borrower, then the right-of-rescission period begins. The loan can fund after the rescission period expires. Remember, if the disclosure was mailed, the TIL is considered to be "received" 3 business days after mailing.

15. Does Wells Fargo have a list of the fees that are included in the finance charge/APR calculations?

You can find a list of fees posted to the Client Tools section on the *Broker's First*® website. Please note that the list is not all-inclusive.

16. Is there a way to waive the initial disclosure or re-disclosure review wait periods?

No, this is not allowed unless the borrower can show there is significant financial hardship – similar to how Right of Recession is handled today.

17. Is there a way to reduce the mail wait period when re-disclosing the TIL?

Yes. A broker can request that a copy of the re-disclosed TIL be faxed to them. They will need to have the borrower sign the revised TIL and fax it back to Wells Fargo. Upon receipt of the signed revised TIL, we can begin the 3-business-day review wait period.

For more information, contact your Wells Fargo Wholesale Lending account executive today.

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Together, we will lead the way, helping to establish a foundation for a stronger, healthier and more responsible industry.

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