



Know before you close.

Five Things Real Estate Agents Need to Know Before October

New mortgage disclosure forms and how they change every transaction you work on after October 2015.

Five things to know:

- Be able to explain the new Loan Estimate and Closing Disclosure
- Timing of closings are impacted by disclosure delivery rules
- Title fees may need to be adjusted at closing and explained
- Line numbers have been removed and there are now 7 fee areas
- Your client will likely receive more than one Closing Disclosure

By now you have heard of CFPB, but the question still remains, “How will it impact me?” While CFPB will not significantly impacting your day-to-day processing of sales, your seller and buyer clients will be looking to you for general information about the new rules and forms, as well as the impact on both the loan process and the closing of the transaction.

As a primer, here are five items you will need to know before the new rules and forms take effect October 3, 2015:

1. **Be able to explain the new Loan Estimate and the Closing Disclosure**

After the 2008 financial meltdown, Congress established the Consumer Financial Protection Bureau (CFPB). Among its first tasks was the combination of forms provided to borrowers at both the beginning and end of their loan transaction. In 2013, CFPB published its final rule revealing these two new combined forms.

The Loan Estimate – Currently, borrowers receive two separate forms from their lender at the beginning of the transaction: the Good Faith Estimate (GFE), a form required under the Real Estate Settlement Procedures Act (RESPA), and the initial disclosure required under the Truth-in Lending Act (TILA). For loan applications taken on or after October 3rd, 2015 the creditor will instead use a combined *Loan Estimate* form intended to replace the two previous forms. The new three-page Loan Estimate form must be provided to borrowers on a timetable similar to the current receipt of the GFE.

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The Closing Disclosure – The combination of forms continues at the end of the transaction as well, with the HUD-1 Settlement Statement and the final TILA forms now combined into a single *Closing Disclosure* form.

CURRENT

Initial TIL disclosure + Good Faith Estimate

TRUTH IN LENDING DISCLOSURE STATEMENT
(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

LENDER: Ficus Bank
BORROWERS: John A. and Mary B.
ADDRESS: 123 Anywhere Street
CITY/STATE/ZIP: Anytown, ST 12345
PROPERTY: 456 Somewhere Avenue, Anytown, ST 12345

ANNUAL PERCENTAGE RATE: 4.49%
FINANCE CHARGE: \$124,056.17
Amount Financed: \$156,021.00
Total of Payments: \$296,906.17

INVESTMENT RATE AND PAYMENT SUMMARY:

	First 78 Payments	Last 282 Payments
Principal and Interest	\$761.78	\$761.78
Mortgage Insurance	82.35	—
Property Tax and Insurance (Escrow)	206.13	206.13
Total Monthly Payment	\$1,050.26	\$967.91

Good Faith Estimate (GFE)

Purpose: This GFE gives you an estimate of your settlement charges and loan terms. It is not a contract. It is only valid if you receive it at least 3 business days before you sign the loan documents.

Shopping for your loan: Only you can shop for the best loan for you. Compare this GFE with other loan offers. Do not let the lender pressure you into accepting a loan just because you are in a hurry.

Summary of your loan:

- Loan term: 30 years
- Interest rate: 4.49%
- Monthly payment: \$1,050.26

Estimated account information:

- Estimated closing costs: \$8,054
- Estimated cash to close: \$14,147.26

This new five-page form is used not only to disclose many terms and provisions of the loan, but also the financial transaction of the closing of the sale.

AFTER OCTOBER 3, 2015

NEW Loan Estimate

FICUS BANK
4321 Random Boulevard - Somerville, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED: 2/15/2013
APPLICANTS: Michael Jones and Mary Stone
PROPERTY: 456 Somewhere Avenue, Anytown, ST 12345
SALE PRICE: \$180,000

LOAN TERM: 30 years
PURPOSE: Purchase
PRODUCT: Conventional
LOAN TYPE: Conventional
LOAN ID#: 123456789
RATE LOCK: 30 days, until 4/16/2013 at 5:00 p.m. EDT

Loan Terms

Loan Amount	Interest Rate	Monthly Principal & Interest
\$162,000	3.875%	\$761.78

Projected Payments

Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82	—
Estimated Escrow	+ 206	+ 206
Estimated Total Monthly Payment	\$1,050	\$968

Costs at Closing

Estimated Closing Costs	Estimated Cash to Close
\$8,054	\$14,147.26

[Download Sample Loan Estimate](#)

Final TIL disclosure + HUD-1 Settlement Statement

TRUTH IN LENDING DISCLOSURE STATEMENT
(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

LENDER: Ficus Bank
BORROWERS: John A. and Mary B.
ADDRESS: 123 Anywhere Street
CITY/STATE/ZIP: Anytown, ST 12345
PROPERTY: 456 Somewhere Avenue, Anytown, ST 12345

ANNUAL PERCENTAGE RATE: 4.441%
FINANCE CHARGE: \$123,997.56
Amount Financed: \$156,964.47
Total of Payments: \$292,420.85

INVESTMENT RATE AND PAYMENT SUMMARY:

	First 78 Payments	Last 282 Payments
Principal and Interest	\$761.78	\$761.78
Mortgage Insurance	82.35	—
Property Tax and Insurance (Escrow)	206.13	206.13
Total Monthly Payment	\$1,050.26	\$967.91

A. Settlement Statement (HUD-1)

Section 1: Loan Information

Section 2: Summary of Borrower's Transactions

Section 3: Summary of Seller's Transactions

Section 4: Other Disclosures

NEW Closing Disclosure

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information:

- Date Issued: 4/15/2013
- Settlement Date: 4/15/2013
- Settlement Agent: Epsilon Title Co.
- Property: 456 Somewhere Ave, Anytown, ST 12345
- Sale Price: \$180,000

Transaction Information:

- Borrower: Michael Jones and Mary Stone
- Seller: Steve Cole and Amy Doe
- Lender: Ficus Bank

Loan Information:

- Loan Term: 30 years
- Purpose: Purchase
- Product: Conventional
- Loan Type: Conventional
- Loan ID#: 123456789
- MC #: 000654321

Loan Terms

Loan Amount	Interest Rate	Monthly Principal & Interest
\$162,000	3.875%	\$761.78

Projected Payments

Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82.35	—
Estimated Escrow	+ 206.13	+ 206.13
Estimated Total Monthly Payment	\$1,050.26	\$967.91

Costs at Closing

Closing Costs	Cash to Close
\$9,712.10	\$14,147.26

[Download Sample Closing Disclosure](#)

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2. Timing Of A Closing Will Be Impacted By Closing Disclosure Delivery

As part of the final rule creating these two new combined forms, the CFPB determined that borrowers would be better served by having a short time to review the new Closing Disclosure prior to signing their loan documents. As a result, in its rule CFPB mandated borrowers have three days after receipt of the Closing Disclosure to review the form and its contents.

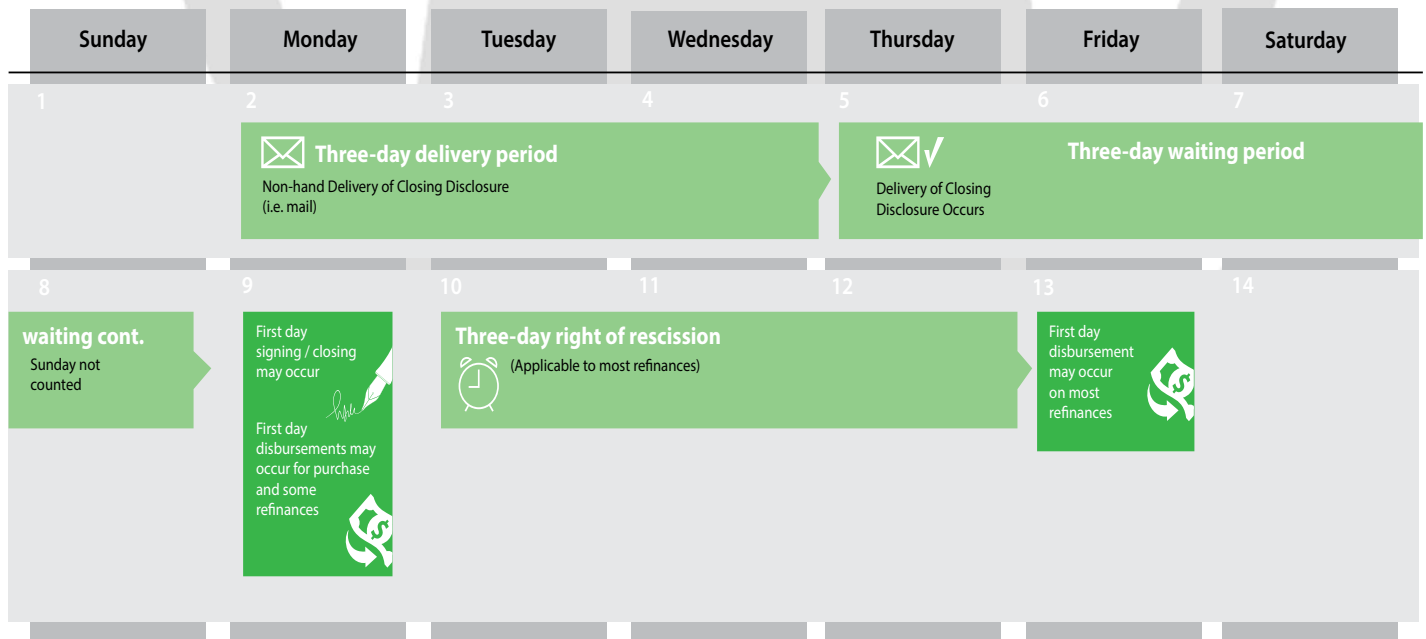
However, note that the three-day review period starts upon “receipt” of the form by the borrower. Unless some positive confirmation of the receipt of the form (i.e., hand delivery), the form is “deemed received” three days after the delivery process is started (i.e. mailing). As a result, the combination of the “delivery time period” and the “review time period” results in six business days from mailing to loan signing.

3. Title Fees May Need To Be Adjusted At Closing And Explained

Both the new Loan Estimate and Closing Disclosure forms require any listing of a settlement service involving title insurance or closing activities to be preceded by the phrase “Title – “. In doing so, a borrower can clearly see all such charges in the same area. However, that is where the clarity ends.

In most jurisdictions, title insurers offer a discount (often called a simultaneous-issue discount) on the loan policy premium when purchased at the same time as an owner’s policy. However, in some parts of the country, the standard purchase of an owner’s policy of title insurance is not as well established. As a result, CFPB determined consumers were better served by showing the full, not discounted, loan policy premium in all situations on both the Loan Estimate

Changes to the Closing Disclosure Timing



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and the Closing Disclosure instead of, where applicable, the discounted premium. If an owner's policy is also purchased in the transaction, a formula is used to discount the owner's policy.

In those areas where custom and practice provide that a buyer/borrower pay for both the owner's and lender's policies, the total actual amount paid for both policies is the same, even though the actual premium amounts are incorrect on the form.

More problematic are those areas where custom provides the seller pay for the owner's policy and the buyer purchase the lender's policy. In these areas, the policy premium for the lender's policy will be overstated and the owner's policy premium understated. As a result, look for an adjustment to be made on page 3 of the new Closing Disclosure form to correct premium amounts to those contemplated by the parties in their contract.

4. Line Numbers Have Been Removed And There Are Now Seven Fee Areas On The Disclosure

Yes, it's true. The line numbering on the HUD-1 familiar to most of us is gone. Instead, the fees and charges are placed on the Closing Disclosure in one of seven areas:

- Origination Charges
- Services Borrower Did Not Shop For
- Services Borrower Did Shop For
- Taxes and Other Government Fees
- Pre-paids
- Initial Escrow Payment at Closing
- Other

Individual charges within each of these major groupings are listed alphabetically. Columns are provided to separate charges of buyer, seller and others, as well as columns for both payments before and at closing.

5. Your Client Will Likely Receive More Than One Closing Disclosure

Since the buyer/borrower will receive a Closing Disclosure several days before the closing (and likely a few days before a walk-through on the property), buyers/borrowers will likely receive a new, adjusted Closing Disclosure at the closing showing any changes that occurred between the initial disclosure and the closing, including adjustments due to timing of the closing, walk-through adjustments and other matters.

But changes may not end there and CFPB mandates that changes in financial disclosure numbers (i.e. changes in a recording fee) in any amount must be re-disclosed, even post-closing.