

**FTS-DEPT OF TREASURY OTS**

**Moderator: Rhonda Daniels  
November 3, 2009  
1:00 pm CT**

Coordinator: Thank you for standing by and welcome to our discussion on the new Real Estate Settlement Procedures Act rules. All participants will be in a listen-only mode.

After the presentation we will have a question and answer session. We will be taking your questions from email first. Please email questions to [externalrespa@ots.treas.gov](mailto:externalrespa@ots.treas.gov). If time permits, we will take your questions from the phone line after the email questions.

Today's call is being recorded. If anyone has any objections please disconnect at this time. I will now turn the call over to the Office of Thrift Supervision, April Breslaw. Thank you. You may begin.

April Breslaw: Good afternoon and welcome to our teleconference on the new RESPA requirements. I'm April Breslaw, Director of Consumer Regulation at the OTS and with me is Senior Program Analyst Rhonda Daniels. We're very happy that you could join us for this very informative session and hope that it provides you with the opportunity to learn about the new RESPA rule and ask

questions of the experts from the Department of Housing and Urban Development.

With that I'm going to ask Rhonda to introduce our speakers.

Rhonda Daniels: Good afternoon and welcome. As you know HUD issued its revised RESPA rule at the end of last year. When fully implemented by January 1, the rule will significantly change the current mortgage loan settlement process. Every settlement service provider and every consumer who shops for a mortgage loan will be impacted by these rule changes.

We are pleased to have with us today Ivy Jackson, director of HUD's Office of RESPA enforcement and Bart Shapiro, the deputy director. The Office of RESPA enforcement interprets the RESPA statute, issues regulations, and takes action to enforce RESPA.

Ivy and Bart are going to review the major aspects of the new rule, including the new required good-faith estimate and the revised HUD 1 settlement statement. You should have in front of you a filled-in good-faith estimate and HUD 1 statement as well as HUD's presentation. The program materials are available on the OTS Web site. If you click on our home page, you will see the announcement for today's call, and if you click on the announcement, you will see the link to the documents we are looking at today.

After Ivy and Bart have finished speaking, we will take email questions today. We have been overwhelmed with all of your email questions and we're going to start with those today. And if we get through with those, as time permits, then we will open up the phone line. As the operator said, you can email questions to [externalrespa@ots.treas.gov](mailto:externalrespa@ots.treas.gov).

I'm now pleased to turn the program over to Ivy Jackson. Ivy?

Ivy Jackson: Thank you, Rhonda and April, for inviting HUD to come and discuss the new RESPA regulations with your member banks.

The principles of the RESPA reform that we based these regulations on was first that we believed that consumers need to be able to shop in order to get the best loan for them. We think that shopping leads to greater competition and lower prices. And we believe that key final terms of the loan should be disclosed to the borrower at closing.

And so in a nutshell, we want borrowers to be able to understand what kind of loan they are shopping for and the consequences of that loan and what the real final terms of that loan are when they close. In doing this we also wanted to preserve a competitive marketplace for all settlement service providers.

Looking at the effective dates of the rule, January 16 of 2009 had a change in that the servicing disclosure required under Section 6, initial servicing disclosure, changed and we have a new format for that. Average charge was allowed to be used at that time and HUD made several technical changes such as withdrawing old escrow information and also in making clear that ESIGN was applicable to RESPA.

But the big date that's coming up for everyone that's looking forward to is January 1, 2010 when the new GFE will be required, the new HUD 1 and HUD 1A. Other things such as the 1% cap on the FHA origination fees and 2.5% on new construction loans will be withdrawn. And everything else that has to do with the GFE and HUD 1 including the tolerances will be in effect. In looking at the servicing disclosure, it's the same, that requirement. It can be provided three business days either by hand, mail, fax, or email. It's not

required if the application is denied or withdrawn. And it is a format, not specific language.

But the basic requirements or the basic form that these regs were written around was the GFE. For the first time it is a standardized form. HUD has seen many different types of forms that are used across the country and territories that make it difficult for borrowers to compare one good-faith estimate to another. Key loan terms and costs for the first time are disclosed to borrowers.

It consolidates charges into categories to allow the borrower to compare more easily their established tolerances on certain types of settlement service costs. And it also applies the yield spread premium. No longer are yield spread premiums paid from lenders to brokers or any other type of back-in fee for that matter are no longer just disclosed as like YSP POC on the HUD 1.

And the GFE requirements have remained the same, that is providing no later than three business days by hand, mail, fax, or email. It is not required if the application is denied or withdrawn by the borrower. It may be provided by the mortgage broker but ultimately the lender is responsible for the charges and costs.

So what triggers the issuance of the good-faith estimate? If the lender requires only that the borrower's name, Social Security number, property address, monthly income, a house value or best estimate, and the amount of loan, if that is the only information that the lender collects, then this would trigger the good-faith estimate.

But in a change from the proposed rule to the final, HUD has also said that any other information deemed necessary to provide a good-faith estimate can

be collected. So for example you could require the borrower to fill out the 1003. At this point in the transaction, you may not collect supplemental documentation from the borrower or verify at that stage. For example you can't require the appraisal and wait for the appraisal amount to come back in before giving the good-faith estimate. You can't collect verifications of employment or income or deposits in the institutions.

And the cost of providing the good-faith estimate is limited to the cost of the credit report. This is important because we want borrowers to shop. So we don't want large fees charged up front that are going to prohibit that borrower from obtaining more than one good-faith estimate to compare and to pick the best loan for that borrower.

In going on to the slides, I believe it's 13 in the materials, let's look at the good-faith estimate on page 1. It includes important dates, a summary of loan terms, escrow account information, and a summary of settlement charges so that the borrower can basically take this first page of the good-faith estimate and compare the first page to several others. The top and the important dates section says interest rate is available through blank.

Now that interest rate date could be the next day or it could be close of business for you for that day. We're not requiring that the interest rate remain open to the borrower for any specific time period. We know that rates fluctuate and so we have not required any minimum amount of time. But for all the other settlement charges then they must be available for at least ten business days for the borrower to shop among the product.

The next, after you lock your interest rate, you must go to settlement within X number of days which is going to be the rate lock period there in how many

days. If the borrower is fluctuating or letting the interest rate float at that time, how many days before settlement must that interest rate be locked.

Moving on to the summary of your loan, you would fill in the initial loan amount, the loan term in years, the initial interest rate, and of course for a fixed rate that's going to remain the same but of course if it's an adjustable rate product, then that's why we have categorized that as the initial rate. The initial monthly payment for principal, interest, and mortgage insurance.

And then important questions that we think borrowers need to consider, we think that some borrowers did not consider these questions in getting the types of loans that they've gotten in the last few years. For example can your interest rate rise and if it can rise to a maximum, what is that percentage and when will that first change rate be. If people are advertising that the interest rate is 1.5%, I don't think that that change date will be in two years from now. So when is the first change date.

Next, going on, if you make your payments on time, can your loan balance rise, yes or no. And if it's yes, what is the maximum it can rise to. We want borrowers to understand if that loan has a possibility of negative amortization, how high can that loan balance rise.

So going on, even if you make your payments on time, can your monthly amount (added for) principal, interest, and any mortgage insurance rise and what is the maximum of that. Does your loan have a prepayment penalty. And does your loan have a balloon payment. So we think those important terms of the loan, parts of the loan are disclosed to the borrower up front.

Now I will note that in the question does your loan have a prepayment penalty, if you're familiar with FHA loans and I think a lot of people are now, that the monthly accrual of interest on the FHA loan is not considered a prepayment penalty.

We have had the Fed look to that issue. When you pay off on an FHA loan, then the lender is required to pay the investor through the end of the month. So if the pay off is on day two, then there would be approximately 28 more days of interest. Often lenders pass this charge onto the borrower but that is not considered a prepayment.

The bottom of the first page it asks if there is an escrow account required for the loan. And also to let borrowers know that even if you have an escrow account, it may or may not cover all the charges. And finally the adjusted origination charges, the sum total of the settlement charges from page 2, are brought over and are added at the bottom.

On page 2 of the good-faith estimate is very similar to what is given now as a good-faith estimate. It has all the costs that are associated with the loan. It's broken into the origination charges and all settlement charges. Now the origination charges - adjusted origination charges include a credit for indirect payment, points for buying down the interest rate, and then the net or adjusted charge is summarized. In the all other settlement charges, required services that we select and that means specifically the type of settlement services that the lender is not going to allow the borrower to shop for such as appraisal, credit report, flood insurance, mortgage insurance, tax service, these types of charges. And there is a 10% tolerance.

Going on to title services and lender's title insurance, that includes lender's title insurance and all title services. The title services for the purposes of this

rule and the good-faith estimate means any service involved in the provision of title insurance. That includes the examination and evaluation. It includes the closing, and Bart will get into a little bit more about that later. He will look at that block in a little more detail.

But going back up to block 1 under our origination charges, now this is a big change for lenders in particular. This amount on block 1, our origination charge, it must contain all charges by all loan originators. So if there are broker charges and there are lender charges, they must be contained in this one amount. And this charge includes application fee, admin fee, doc prep fee, processing fees, underwriting fees, wire fees, and the category we often see on the GFE, miscellaneous fees.

Now after GFE is issued, that amount in that top block 1 may not change unless there are certain very narrow circumstances that that charge is allowed to change. So keep that in mind when deciding what is going to be the fee that you are going to charge to the borrower.

Now block 2, your credit or charge. Mortgage brokers must check either box 2, a credit, or the third box which is a charge or in other words points for that interest rate. They cannot check both. So you cannot have a loan that's coming above par so that the lender is paying the mortgage broker a back-in payment, whether it's a yield spread premium, whether it's a flat fee, or any other amount based on whatever the criteria, you cannot have overage on that loan and then charge the borrower points to buy that loan rate back down.

Now lenders may check box 1. That basically says the credit or charge is included in our origination charge. They might check box 2 giving a credit for a no-cost loan. Or they might check box 3 if they are charging points or the borrower is buying down that rate. Now after the interest rate is locked, the

credit or charge for the interest rate and the adjusted origination charges may not change. Now when I say they may not change, we're going to talk about the circumstances when they could.

Looking on to the example on page 23. In this example charge for the loan is \$6250. In this example, there is a broker fee, a broker in this transaction. In this particular example there is a credit of \$3000 for the interest rate of 6%. So if the charge is \$6250 for both the broker and the lender and the lender is paying the broker \$3000, then that is subtracted off. That is a credit. So the adjusted origination charge that the borrower will pay is \$3250.

Now going on to all other settlement services, we have the appraisal, credit report, tax service, flood certification, up front mortgage, those would be listed. Those are required services. Now there may be other required services that the originator selects depending on what part of the country you're in. But HUD has identified these that we believe are typical. Then you'll see that the amount for these particular charges are to the left of the column and then the subtotal is in the column.

Going to on to title services, remember this includes lender's title insurance and all title services, any service involved in the provision of title insurance. Examination, evaluation, preparation, issuance of the commitment, the policy, the clearing underwriting. And this would also include those administrative charges such as fees for sending the documents. We've also seen a proliferation of fees such as for the email, for downloading the email that contain the documents, for copying the documents, and for storing the documents. All of that has to be in that Box 4.

Box 5 is the owner's title insurance. This is typically on a purchase transaction. If it is a refinance, you may put in a - in the column.

Required services that you can shop for, the borrower can shop for, we identified a couple that are typically the borrower can shop for are survey and pest. Now just because block 6 says required services that you can shop for does not mean that the title services, in other words title insurance, cannot be shopped for. It's just that title insurance is such a - and closing costs is such a huge category of charges to the borrower that we thought it should have its own category.

Now if the loan originator permits a borrower to shop for services such in block 4, 5, and 6, the loan originator must provide a written list of providers that the estimates were based on. Now I think there has probably been some misunderstanding about what this written list is all about. The written list is to show us and regulators and for the lender to know what was that estimate based on.

So if you put down a market estimate by surveying a few title companies in your area but then you allow the borrower to shop and the borrower went and chose someone that had a lot higher charges, then we are not going to hold you responsible for it. So it is only the value of the list is to show us which providers did you base that 10% - did you base the estimate on. We're looking at whether the tolerance was met. When you give the GFE, that's when you give the written list. And it should have at least one provider. More providers is - the more providers you have, there is no - as I said, it's not to say that borrowers can't shop for others but it is to show who you based your estimate on. Now at the time if you put an affiliate company on that list, then you are still required to give that affiliated business disclosure.

Looking on to the other blocks, 7, 8, 9, 10, and 11, in block 7, the government recording charges for state and local fees to record the loan and title

document. There is a 10% tolerance on that. Block 8, transfer taxes. This is a little bit different because you've got to get this one right. There is zero tolerance on this charge. Block 9, initial deposit for escrow account, 10 and 11, homeowner's insurance, we did not place a tolerance on these categories. The deposit for your escrow account can change.

Daily interest charges will change based on when the borrower closes. Homeowner's insurance might change because the borrower adds additional liability or a jewelry rider or something of that nature on. So these charges are just whatever they are.

Going on to the good-faith estimate, page 3 is primarily an instruction page. There's a tolerance chart, a trade off table, and a shopping chart.

Now the tolerance chart goes back over again which charges can change. So remember back to when we talked about on the top block on page 2 of the GFE are the origination charge, that can't change. The credit or charge for points and the specific interest rate, after the rate is locked in, that cannot change. And - that the first two can't change, then the adjusted amount can't change. And the transfer taxes.

On the tolerance, the required services that the lender selects. And then the - if the consumer, borrower, selects title services either for the lender or the owner and chooses someone off the list, then you cannot - you will be held to a 10% tolerance on that estimate. Also required services that the borrower can shop for if the borrower uses companies that you identify. And then you have the government recording charges. Now if the borrower picks to - yet again if the borrower chooses someone that is not on your list, you will not be held to that 10% tolerance.

The next part of page 3 is a trade off table. The first column -- and I'm on page 30 of your slides -- the first column must be filled out because that is a capture of the loan that is on the GFE. If you have the same loan with lower settlement charges, that you have a little bit higher interest rate but the borrower has to bring less cash to the table, then you would fill in that second column. If you have a loan in which you're offering to let the borrower buy the rate down with points, that goes in the third column.

And last is a shopping chart for the borrower to use to compare different loan products.

Let's look at some of the change circumstances. So there can be changes to this good-faith estimate. We might start out talking about acts of God or disaster or other emergencies. But probably the one that - we hoped one that would be more likely to good faith would be changed or inaccurate information that's provided by the borrower after the issuance of the good-faith estimate.

Now if the borrower - you know, we're getting close to the holidays. If you believe that they have a certain credit profile that you pulled when you pulled the credit report and then the borrower went out and did a lot of shopping, that may put them in a different - may have a different credit profile. And so that will affect or could affect the good-faith estimate.

The appraisal may not come in at the amount that you were anticipating. So therefore the borrower may either have to bring more money as a down payment and so the loan amount may go down or the loan product may have to change.

So you're looking at changed circumstances. It could be - so you're looking at new information that wasn't previously relied on. If you thought they had X amount in the deposited - in their banking account and now you found out that they did not. Maybe the - you found out that they are in a flood plane and so now they're going to have to have flood insurance. So those are some things that could change.

Now if you are still able to offer that loan with that changed circumstance, let's say that you did discovery that they needed flood insurance, then you - at the time you find out that there was a changed circumstance, as long as you issue that - a new GFE with that flood insurance now on it within three business days, then you are allowed to update that good-faith estimate.

But just because you're adding flood insurance onto that good-faith estimate, that's not an opportunity to increase all your other charges that have nothing to do with the flood insurance. So the only thing that good-faith estimate may reflect for increased charges is the actual circumstance.

Now the borrower might also request a change and so that is a changed circumstance. The borrower might want to add something to the loan. They may want to decide to pay a point to buy the rate back down, different things of that nature.

So how do you know that? When the borrower finishes shopping, they should notify you on whether they want to proceed with the loan for which you've provided the good-faith estimate. If you don't hear from that borrower within ten business days, then that GFE is dead. It is not to be something that is out there for a borrower to come back 60 days ago and say, "Oh, well, you told me that my closing costs were going to be \$5000 and I can get an interest rate at 5%." So it is - you're not held to it after 10 business days.

Now if the borrower doesn't lock the interest rate within your time period that you've specified or the lock expires, then a new good-faith estimate could be issued also. And if you - so I think this is probably one that you might see in the next coming months is that the borrower lets the interest rate float and then you get ready to lock the interest rate and you're changed, then of course you can update the good-faith estimate to reflect that change.

So it might be that if they are going to pay the additional points to buy that interest rate back down or the interest rate may bump up and so that's going to affect the adjusted origination charge. Yet again, I want to mention that just because the interest rate bumps up is not an opportunity to increase the estimate for title insurance, appraisal, credit report, and so forth. It is only the interest rate that may change.

On new home purchases, we've made a provision particular for that in the rule. Oftentimes the borrower enters into a contract to purchase a home that will not close for months as the home is being constructed. If there is a requirement that the borrower qualify for a loan or get a good-faith estimate of cost at that point, then we're not going to hold you responsible for that good-faith estimate for six or nine months later when you get ready to settle on the loan.

So what you do is if you have issued a good-faith estimate and you have let that borrower know that 60 days out from projected closing on that home that you will issue a new good-faith estimate, then you may do so. And anything can change on that good-faith estimate. We are not holding you to any numbers on that good-faith estimate when you issue it that far in advance. So you may issue a new completely revised good-faith estimate up to 60 days before settlement.

There is a right to cure also in this new rule, and Bart will talk a little bit more about that. When you get to closing and if tolerance is exceeded, then you have 30 calendar days to reimburse the borrower for any over charges. Now that can be corrected at the settlement table and we think that's probably more efficient, but you do have 30 days with no violation of RESPA under Section 5 for doing so.

So 42 is just a little bit of how we expect that good-faith estimate process flow to work. So the borrower visits the loan originator or contacts him online, they give the information that's required by that lender, could be the full 1003.

The lender uses the Social Security number and pulls up a credit report. I believe that they can either go forward with the loan or takes one look at the credit report and the information that's given to them by the borrower and says can't make this loan so you're denying the application. No good-faith estimate is issued as it is denied.

But let's say you believe you can make a loan to that borrower. So the good-faith estimate is delivered to the borrower. You get into the underwriting of the loan at that point in time and the underwriting is something doesn't - if you decide you can't offer the borrower a loan, then you deny it at that point. But if there is another loan product or you can make a change to that loan and you offer the borrower and it fits under the changed circumstances, then you can issue a new GFE.

If the borrower goes on - the borrower is approved, then prior to closing the originator transmits the information needed to fill out for settlement and the settlement agent prepares the HUD 1 based on that information. Now once that HUD 1 is prepared, if you - either the tolerances are met in the

comparison with the GFE or they're not met. And if they're not met, as I said, that correction can be made at the settlement table but should be made within 30 days and - cure the violation.

So that's just a quick walk through on the good-faith estimate, and I'm going to turn it over to Bart to talk about the HUD 1 now.

Bart Shapiro: Thank you, Ivy.

And right now we're on slide 43, as you can see, HUD 1 settlement statement. And obviously we provide the HUD 1 and the HUD 1A settlement statements and for purposes of discussion, I'll just refer to the HUD 1.

And there are some general points to emphasize. One, in answering the question why did we revise the GFE, well, one of the overriding factors was to more easily compare the GFE and the HUD 1 together. So the HUD 1 was revised; the GFE was created to be compared to this form.

We want both to match up equally. We brought the HUD 1 into a categorized way of looking at the charges as they are disclosed on the form. And that too parallels the way the charges are disclosed on the good-faith estimate in that it's the columns to the right and the categories for blocks 1 through 11 on page 2. And here too on the HUD 1 you'll see as we go through it, there are categories in the various sections from the 600, 700, 800, 900, all the way down to the 1300s.

There is the - of course there's always the desire to have greater transparency and to see where fees are being charged, what services are they going for, but that's balance by the need to have greater clarity of the overall fees that are being paid by the consumer at the closing.

And so as you will see as we go forward, third-party charges are generally listed outside or to the left of the columns so that we can keep the columns really clear for the larger categorical numbers, the dollars that really are there for the various sections, the origination charges, the title fees, and various other categories throughout the HUD 1.

We've added a third page to the HUD 1. The top half of that as you'll see is really a comparison chart to determine how the fees were at the estimate stage on the good-faith estimate and how they now are on the - what the actual charges are on the HUD 1. And it's broken out by tolerance ranges so that the top part shows the fees with zero tolerance, those with the 10% tolerance, and then you have those fees that aren't subject to a tolerance.

And then finally at the bottom of the page, you'll see there too paralleling the front of the good-faith estimate is a section dealing with the loan terms in order to highlight the loan, make sure that the loan is the one that was bargained for right from the outset.

As Ivy said, there are certain other cure provisions. And here you would have the ability if there were inadvertent or technical errors in the preparation of the HUD 1, that would not be considered a violation. It's important to understand that it's not a violation of RESPA Section 4 if it's revised within 30 calendar days after settlement. So you really have an extra 30 days to make sure it's settled, straightened out, and made completely accurate - reflective of the transaction that occurred.

We didn't change page 1 of the HUD 1 except for some minor cosmetic changes, but you would make use obviously of certain categories of the page 1 of the HUD 1 because it is kind of a summary sheet where you pull the

information forward from the second page onto the first and you use it for adjustments or other things that we need to disclose but aren't necessarily charges that would have appeared on page 2.

And one of those situations is, for instance, where there's a second mortgage that's put in place on this property and a second mortgage in light of this mortgage that's being applied for.

So if there's an additional loan other than a loan on line 202, the principal loan, regardless of whether the loans are made by the same lender or different lenders, the principal amount of the additional loan would be shown on lines 204 through 209.

And as you can see in the example on slide 46, you have the second mortgage principal amount displayed as \$40,000, the second mortgage proceeds of \$38,600, this other than the proceeds of any additional loans and a brief description of the additional loan, but all other charges and credit associated with the additional loan must be disclosed on a second HUD 1 settlement statement.

So basically for each loan, you're going to have a separate HUD 1.

Then page 2 of the HUD 1, as I said, was revised to better compare with what's now the required good-faith estimate and to bring forward the categorization to provide greater clarity in the summary of the charges. If we start at the 700 series which are the real estate charges, you would see that first of all we've taken out the percentages. That's the commission for real estate agents or brokers and are now to be recorded in dollar figures.

And you would see on slide 49 where we have an example of the 700 section, there's in line 701 to the real estate agent number one, there's a \$9360 commission. And this was obviously a split commission scenario. There's in line 702 \$9360 to real estate agent number two.

And you can see the commission lists the total in the seller's column is the \$16,720 total. But as a point of clarification in line 704, we also would disclose that there is the earnest money deposit of \$2000 that was being held as a paid out of closing item by real estate agent number two.

So let me move ahead here because I know we want to try to allow a lot of time for questions that have been coming in. So let me move to the 800 series which is the origination section of page 2 of the HUD 1.

You can see that this very clearly reflects where you would have found these charges on the good-faith estimate. For instance by 801, it's captioned our origination charge just as it is on the good-faith estimate. And just alongside the column, it states that it's from the GFE number 1 so you would know what block to look back to it. Same thing with 802, 803, and onward. You can see that everything is referenced back so it's easily discernable where the estimates could be found to see how they match up with what the charges are at the closing stage of the transaction.

In this example you'll see that line 801 is an origination charge in the amount of \$6250. The credit or charge for the specific interest rate chosen is \$3000. In this example it is a credit so that line - and I should point out that here the calculation is displayed to the left of the column and that 803, your adjusted origination charge, is what is brought - can be traced back to GFE line A and that is in here in the amount of \$3250.

On slide 51 you see the remainder of this example for the 800 series, that 804 - lines 804 through 807 are charges that are listed in the borrower's column. These are other third-party charges that are required by the lender and these are for, in this example, the appraisal at line 804, the credit report at 805, the tax service fee at 806, and the flood certification at 807.

Again, you can see how you can walk back through the GFE and you can also see where the company is stated clearly on those particular lines. And the amounts, though, in this are put into the column because they're distinct third-party fees.

There was a question regarding how we designate the origination points on the new revised HUD 1. And it's been determined and has been accepted by the IRS that in the line 801, our origination charge section, you could put -- for instance in this example at slide 52 -- 1% or \$3000 in this scenario and you would state includes origination point.

If for some reason it's not very easy to fit such language in or it's going to get blurred, then there is another option where you could put asterisks denoting that there is an item listed at the bottom of the page. And here you would put it the same way, though; you would put includes origination point. And again the example is 1% or \$3000 but that either way it's been clearly designated so it can be captured for the 1098 and ultimately Form 1040 during tax filings.

We move onto the 900 series. You would have the items required by the lender to be taken in advance which obviously here would be daily interest charges. Our example has the dates from 12/30/09 to 12/31/09 so it's a \$50 charge. And then you would have the mortgage insurance premium and the homeowner's insurance in this example for (unintelligible).

You would - in looking at the 1000 series similarly you have a reserve deposit with the lender. Here to you have your calculations. And again they're all separated out and displayed clearly to the left of the column but they're tallied for the category and then put into the column.

So again it's that tension between transparency where you have a lot of little figures but we wanted to avoid the proliferation of fees and confusion that that creates and rather have the total numbers for the various sections placed in the prominence of the column and again because the columns here can be compared more easily to the category columns on the (unintelligible).

So again in this example you have all the way through to the 1007 line for the aggregate adjustment which is taken into account in the calculation and your category total is \$306.60 in this example.

Moving forward to slide 56, we get into the 1100 series. And this is the title services section and it - that if any service involved in the provision of the title insurance and it's including but it's not limited to title examination and evaluation, preparation and issuance of the commitment, preparation and issuance of the policy, and all the administrative services and processing services required to perform these functions.

Now this, if you were to really look at the rule language as well as the instructions for how you prepare this, this really parallels what we've also done in the origination section where again it's an effort to avoid this proliferation of fees and not have a lot of what's probably called junk fees appear in this or other sections on a HUD 1.

And so the title services have really become cumulative and really are to be pulled together into one ultimately hopefully one line. There are some

exceptions to that that I'll get into but it's in the one line just as the origination services sweep up all the administrative functions that it takes to really go through that process.

So here in the 1100 series you have your title services. And in our example on slide 60 you can see that the categories total at line 1101, title services and lender's title insurance, \$925. That's because it's pulling in all of these services that I stated earlier that would be involved in the provision of the title insurance and - information.

Owner's title is a separate policy, the owner's title insurance policy. And in this example you would put that in line 1103 and that would be in the column because that's a separate fee and that would not have been included or caught up with the lender's title insurance.

And here in this example if you look down, you can see that there are the lender's policy limits, the owner's title policy limits, and then we put in the agent's portion of the title insurance premium and the underwriting portion of title insurance premium. But what becomes the cumulative total get placed into the actual column.

So what would really be outside of the column is at 1102 you have the settlement or closing fee. You would have 1104, the lender's title insurance premium and the related endorsement. 1105, the lender's title policy limits or coverage. And 1106, the owner's title limits or coverage.

On 1107 you would have the dollar amount of the title insurance premium and endorsements that are retained by the agent and a similar calculation for the information and insurance premium endorsements retained by the underwriter.

And then 1109 would be title charges that would be paid to third parties. And there you would identify the names and the service which was provided.

You can see in our example on slide 63 that you have a borrower charge to a distinct third-party closing company and there's also a seller charge toward the closing. So the borrower's charge is the \$100 reference to the left of the column or outside the column because that's being tallied within the total for the title charges to the borrower. But there's a \$75 fee that's in the seller's column and that's because the seller is paying that so that's a distinct charge going to the seller.

Let's move onto the fees that are listed in the 1200 series which are mainly the government-related charges. And in our example on slide 65 you can see government recording charges. And again just to remind you, you can see that it refers back to the GFE at block number 7 and it's the \$50 total there for the recording fees which were \$25 for the deed and \$25 for the mortgage.

There's the release which is \$15 which you can see is carried off to the right to the seller's column because that charge here is being paid by the seller to release that. And then the transfer taxes are listed in 1203 and it's listed as \$1368. And you can see how it's broken out on lines 1204 and 1205. But the columns reference - be paid is the \$1368 total for that. In year two it could be stepped back to see where it started on the good-faith estimate at block number 8.

In the interest of time we'll move ahead to the next category which is the 1300s and that's at slide 68 is the example for that. Here you would have additional settlement charges. This is what we call other or miscellaneous types of charges. And here you have required services that you can charge which is on the good-faith estimate block number 6.

And here you can see the charge, the overall charge for the category, the \$270. And that here in this scenario would be the survey as listed at \$225 and the pest inspection is listed at \$45. Those again are to the left or outside of the column; the tally is within the column.

But there's another charge that's a separate charge and that's the home warranty because the home warranty would not have been a necessary or required charge by the lender. And this is a charge that the borrower will be paying though at the settlement to obtain the home warranty service. And that's a \$225 charge and that would be in the column because that's going to be a charge paid at the settlement.

Now in the situation of seller or others paying for certain items in the course of the transaction, all of the charges that were put in the borrower's column on the good-faith estimate are put in the borrower's column on the HUD 1. The credit to the borrower from the seller is here where I explained earlier you would be on page 1 by putting on page 1 the offset of charges in the borrower's column. So you're going to be using that 200 series and the 500 series.

Lines 206 to 209 you would use the credit to the borrower. And then you would balance that against lines 506 to 509 which are the credits to the borrower from the seller. If there's a credit from a party other than the seller, then you would identify that party and you would have that listed on page 1.

So that's obviously - we know that section is dealing with the seller generally so if it's other than a seller, we want to have that party identified. So here in the example on slide 72 you can see in line 206 you have a seller paid credit

\$2000. And in the line parallel, line 506, you would have the seller paid credit of \$2000 so you can show the offset.

The newest aspect of the HUD 1 as I stated is the addition of a page 3 that has been created to really expand the HUD 1 in terms of clarity and comparison back to what really was the borrower thinking that it was getting at the outset to make sure that that's what it was - it's receiving as a borrower at the conclusion of this process.

So here at the settlement, at the HUD 1 stage, the borrower would receive a HUD 1 with this new page 3. And the top part of page 3 is the comparison chart of charges.

As you can see, there are three categories of charges -- charges that cannot increase, the zero dollars charges at the top; the sum of the charges that cannot increase by more than 10%, that's that cumulative category where the total of that section couldn't go beyond 10% from what the estimate stated; and then there are charges that can increase because they were never really the responsibility of the lender, they were charges where the borrower selected their own service providers.

In looking at slide 76 you can see the top part of the comparison chart you have charges that cannot increase. And in this section these would be individual line-by-line charges that cannot increase from the amount stated such as our origination charge. On the HUD 1, it shows that it's line 801 and then you have your good-faith estimate amount and then you have your HUD 1 amount next to it.

This would be the zero tolerance portion and here you can see it's above the amount that was estimated so there's a \$250 excess. Your credit or charge for

interest rate shows at 802 is 3000 to 3000 so that your adjusted origination charge is 803, \$3250. You have \$3500 on the HUD 1. Transfer taxes are \$1368, and the charge is for \$1368.

Looking at the 10% tolerance, as I said this is not line by line, this is cumulative. So in the charges that in total cannot increase more than 10%, it's the sum of all these itemized charges. In this example the appraisal, the credit report, the tax service, and the flood certification. And in this example the total of the charges estimate on the good-faith estimate was \$378. As you can see at slide 78 the total of these charges at the HUD 1 stage are \$423 so it's a 12% increase or \$45 excess.

The increase must be listed in the increase between GFE and HUD 1 charges line as a dollar amount and also a percentage. As I said, it's 12% reflecting the larger \$45 excess. This will have gone over the 10% tolerance.

The charges in the charges that can change category obviously may increase. And in this example you have daily interest charge that went from \$100 to \$150, the homeowner's insurance that went from \$600 to \$645.

The bottom part of page 3 displays the loan terms. And this is really an important aspect to assure it really reflects the front page, the summary page of the good-faith estimate in that section called the summary of the loan terms.

And in this section the information would have been provided to the closing agent as to what's in the loan, what are the loan terms. And this is to assure the consumer, the borrower, at the closing that they got the loan that they thought they were going to get. They got the loan they bargained for and that they're made aware really of what their responsibilities are -- how much are they

going to have to pay each month, the amount of the escrow, things of that nature.

So if you look at slide 83 you can see that here in this example there's a loan amount that's stated as \$300,000, there's a loan term of 30 years, the initial interest rate is 6%, the monthly payment for principal, interest, and mortgage insurance if there's any is \$1888.58

And then you go through the questions much the same way as they appear on the GFE on page 1 -- can the interest rate rise, can the loan balance rise, is there a pre-payment penalty, is there a balloon payment, and then your total monthly payment and monthly escrow payment.

And in this example you can see here at the closing obviously you can be much more specific as to the calculation and the listing of the escrow. So in this example if you have escrow accounts so the box is checked, it says you have an additional monthly escrow payment of \$216.67 and have that added to your underlying payment so that now you have a total initial monthly amount of \$1930.55.

And it also tells you in this example that the escrow amount includes property taxes and homeowner's insurance since those are the boxes that are checked. And again there is a right to cure for any inadvertent or technical errors. That would not be a violation of RESPA Section 4 if the revised HUD 1 is provided within 30 calendar days after settlement.

There's also in effect an average charge provision that's generally paid. It's a very flexible formula. It can be a calculation based on a specific class of transaction. It's for a specific time period, a minimum of 30 days, a maximum of six months, so that the calculations can be re-examined and assured that

they're accurate. And they can be for a specific geographical error. It could be anything as broad as the national average.

And by the way I think Ivy touched on this at the beginning, we have allowed for this to fall under ESIGN - so as long as the provisions of ESIGN are complied with, they can apply to RESPA disclosures.

So thank you and I will hand this back to Rhonda.

Rhonda Daniels: Thank you, Bart.

We're now going to move into the question and answer portion of our program. And we received your email questions. Thank you very much. And we're going to begin with those. Before we begin with a question to our HUD guests, we have a question for OTS.

And the question is given the continued issuance of frequently-asked questions by HUD in efforts to clarify various items in the rule, how does OTS intend to enforce the new regulation, will there be lenience on January 1, 2010 or must lenders be 100% in compliance from day one. And I'd like April to address this question. April?

April Breslaw: Thank you, Rhonda.

Well, we certainly recognize that there continue to be interpretive issues but this proposal was finalized and made available to the public more than a year ago. Consequently, the OTS will begin examining for compliance with the rule on day one and we certainly expect every one of our institutions to be making a good-faith effort to bring their operation into compliance with the new rule.

If an interpretive issue arises, then we will consult with our colleagues at HUD and come to a determination. But the bottom line message is that we do expect everybody to be as ready to go by January 1 and our examiners will begin examining for compliance at that point.

Rhonda Daniels: Great. Thank you, April. Now I'd like to start with questions to Ivy and Bart.

If the old good-faith estimate is issued in 2009 but the loan won't close until 2010, do we use the HUD 1 and then re-issue a new GFE or are we allowed to use the old HUD 1 in 2010?

Ivy Jackson: Okay, if the old GFE was issued, then you may use the old HUD 1. You do have the option of re-issuing the GFE on the new form and using the new HUD 1 if that makes it easier for operations.

Rhonda Daniels: Great. Thank you.

When you say that all the settlement charges must be available for 10 business days, does that mean that we cannot close for 10 business days after issuing the new good-faith estimate?

Ivy Jackson: No, it doesn't. If the borrower has notified you pretty quickly that they want to move forward on that loan and you are able to close in eight days, then you can certainly do so.

Rhonda Daniels: With respect to the interest rate, is there a minimum timeframe that the interest rate quote has to be good?

Ivy Jackson: No, we are not putting that burden on you. If you tell the borrower that it's only available for the next four hours or close of business of that day or even two hours, then that - there is no minimum time limit that the interest rate must remain open.

Rhonda Daniels: We allow borrowers to choose their own title company but we require our legal counsel to review the title. Where would the required attorney review fee be placed on the good-faith estimate?

Ivy Jackson: Well, that would be part of the - because it's a lender charge that's going to be part of the origination fee and it's going to be in block 1 of the GFE and then in the 801 of the HUD 1.

Rhonda Daniels: Another question on the interest rate. Can a loan proceed to closing where the interest rate was never locked?

Ivy Jackson: I suppose if you allow the borrower to lock at the settlement table, then that would be allowable to HUD.

Rhonda Daniels: A question from Texas which is an attorney review state. What about the 1100 series for doc prep for states that have attorney requirements and where does that fit in on the good-faith estimate?

Ivy Jackson: Well, these are considered part of administrative and processing charges, wouldn't you agree, Bart?

Bart Shapiro: They'd be rolled up into the 1101 categorical tally because they would be part of what's the overall process for getting the title work done.

Rhonda Daniels: Can you tell us which HUD line and which GFE section would be used for the VA funding fee?

Ivy Jackson: Well, the VA funding fee would be typically - or it is going to be - it's going to be in block 3 of the good-faith estimate.

Rhonda Daniels: Should the lender's courier fee such as a FedEx fee be included in block 1, our origination fee, on the good-faith estimate or should it be listed in block 3 under required services that we select?

Ivy Jackson: Well, we believe that courier type fees, wire fees, all of these are considered part of administration and processing. So those should all be included in the loan originator's charge in block 1. Just like if the title company has a courier and I mentioned charges to download the emails and copy them, when the documents are being sent, then that's their administrative charges. And those would be rolled in the 1101 for the title company.

Rhonda Daniels: Here's a question about using the GFE to do shopping. The questioner asked whether - since we're no longer able to issue multiple good-faith estimates, how would this affect the borrower who is just shopping. Can we give a good-faith estimate if the person is just shopping for a loan?

Ivy Jackson: Well, once you issue the good-faith estimate, then there are consequences or we would look at that as that was an official issuance, that you're offering a loan at that - with those fees and estimates. If you want to give the borrower something general that you're not locked into, then that should be something on another type of document that you give them, not on the official good-faith estimate.

Rhonda Daniels: Could you talk a little bit about the underwriting process? How much underwriting is needed prior to giving a good-faith estimate?

Ivy Jackson: Well, when you're giving a good-faith estimate, we consider underwriting - a lot of part of underwriting as in the verification stage. So what we do say is that the reason for getting the Social Security number from the borrower is that we respect that you would pull a credit report and look at that. You would also be collecting information such as estimated your loan amount, estimated property value, looking at the monthly income. Those were the factors that - we are going to assume that you at least looked at those (six) factors in issuing your good-faith estimate. And then we did say that you could collect additional information even up to the total completion of the 1003.

What we don't want to do is - remember what we are trying to promote is the borrower to shop and to compare different loans and their costs. So we don't want anything more than the cost of a credit report charged at this point. We don't want VOEs and VODs collected. We don't want appraisals done and such as that.

Rhonda Daniels: Great. Questions on appraisals. We have an in-house appraisal department that completes some of our appraisals and we also utilize outside appraisers. Now when we give the GFE, we don't necessarily know whether we're going to use the in-house appraiser or we're going to go to a third-party appraiser. Where would the appraisal fee in this situation go on the good-faith estimate?

Ivy Jackson: I think you're going to have to put it down as - if you think you're going to use a third - possibility of using a third-party appraiser, then I would probably put that down as an appraisal fee.

Bart Shapiro: If you're not sure if you're going to capture it in the origination, it's got to go somewhere. You're going to have to have that charge somewhere. But if you're really not sure and you think it might go outside of your company, you're probably better off assuming it's going to outside and listing it as a separate fee disclosed as a third-party appraiser.

Rhonda Daniels: Thank you. We have some questions about how to attribute costs when there are certain state requirements that require that certain costs be paid by the buyer and certain costs be paid by the seller. Does the whole amount need to be put on the good-faith estimate even when the buyer wouldn't be paying for the whole amount at closing?

Bart Shapiro: Well, the concept - one of the concepts of the good-faith estimate is to sort of view the transaction from the perspective of the borrower. The borrower would look at the totals on the good-faith estimate presuming that he or she is going to be paying the entire amount.

If during the course of the transaction it's determined either through the contract or later negotiation or what have you that there may be a seller contribution for different things, that's when at the HUD 1 stage you would utilize the credit back and - on page 1 of the HUD 1 and show it that way.

Ivy Jackson: And I think you should always err on the side of disclosing it as a borrower cost on the good-faith estimate. And then if subsequently there is a credit, then you credit it in the 200 section on the front of the HUD 1 at closing. And that keeps it easier for the borrower to compare from one lender product to another, that they're going to see whether it's owner's title insurance -- that's a common one that comes up -- that you put that on the good-faith estimate and then if the seller wants to pay, then it's shown as a credit.

And remember too that sometimes things that you say that it's typically done or it's done this way in our state, sometimes that is just out of the - a typical practice and it's not a state law.

Rhonda Daniels: Here's another question about the loan application process. Is it acceptable to require a loan application to be completed in order to provide a good-faith estimate?

Ivy Jackson: Yes. We have said that you can require them to fill out the whole loan application in order to - prior to giving the good-faith estimate.

Rhonda Daniels: How are paid outside of closing charges to be noted on the good-faith estimate? Can we still use POC on the GFE?

Bart Shapiro: The GFE wouldn't but at the HUD 1 stage you would list the party clearly and to the left of the column and then designate it as POC.

Rhonda Daniels: If we waive a fee, does it still have to be listed on the good-faith estimate?

Ivy Jackson: Well, I'm - I guess if you're automatically waiving it from the beginning, it's not a charge to the borrower. If you do put it on the GFE and we get the question sometimes if it's on the GFE and then you get to the HUD 1 stage and it's waived, then it would not appear on the HUD 1.

Rhonda Daniels: Here's a question about a HUD 1 line. It doesn't appear that there's a line 1109 on the HUD 1. Is a lender allowed to add an additional line?

Bart Shapiro: Well, we do have lines in there that can follow. We have allowed for in the forms themselves and in the rule language that if a particular section needs to be expanded for certain additional services and there's not enough space

provided, there can be additional lines listed. But the words for general and common fees for services or the title of the services are what's already pre-printed on the forms.

Rhonda Daniels: Great. Ivy, could you talk a little bit about the required list of settlement services? What services are required on this written list of providers? How many service providers must be disclosed and how would the lender choose them?

Ivy Jackson: Well, that's kind of left up to the lender. First of all we're not identifying which services that you require to close the loan. That's what the lender is going to need to know what he requires to close the loan. There obviously has to be at least one provider on the list. We would - you may want to include others. I think that if you get into just including an affiliate that I might suggest that you include other providers. But there isn't really a minimum on that.

And let me make it clear this comes up. It wasn't one of the questions that's been asked yet. We did not provide a specific form or format for this written list. So it is - you can certainly put - a title on the list that here are the providers on which our estimate was based on. If you want to, say you're allowed however to shop for these providers on your own. You may even state that it's not an indication of any particular endorsement of quality of the service.

So it really goes to the fact of here's what we based our estimate on. So if the borrower as I said goes and chooses someone outside of that list, we didn't think it was fair to hold the lender to a 10% tolerance on those charges. But on the other hand we want to know who the lender based their estimate on and if

the borrower did use one of those providers, then we would be looking for the lender to honor that 10% tolerance.

Rhonda Daniels: Let's look at some mortgage broker issues. We're getting a lot of questions about the yield spread premium disclosure and there's a lot of confusion about the disclosure. Ivy, for example - in the good-faith estimate example that you provided, can you explain what is that \$3000 credit?

Ivy Jackson: In that example that was what the amount of money, whether a yield spread premium, that was being paid to the broker by the lender. So keeping in mind that in the top block on our origination charge you decide what you're going to make in direct charges on that loan. And then any amount that is paid from the lender to the broker is then shown as a credit off of that amount. It's no longer just going to show up a yield spread premium or back in payment as YSP POC on the HUD 1.

So part of this rule, a major part of it is that the yield spread premium or other back-in charge doesn't just become something that is disclosed to the borrower. It is actually applied to the charges.

Rhonda Daniels: Is the lender bound by the good-faith estimate that is provided by the mortgage broker?

Ivy Jackson: Yes. And so there are two areas of communication that are going to have to be very clear. And one is that lenders are going to have to communicate with the broker on what the lender's charges are so that the broker, if you allow the broker to give the good-faith estimate, that they give that estimate with the charges as you would wish them to be.

The other area of communication of course is going to be with you and the settlement attorney when you send the instructions over for the closing of the loan which includes the instructions on how to fill out page 3 of the HUD 1.

Rhonda Daniels: And then who would be held accountable, the broker or the lender, for the right to cure?

Ivy Jackson: The lender.

Rhonda Daniels: By saying that the cure can be made within 30 days from closing, are you saying that the bank has to refund the borrower the difference of the charges that were charged at closing and what was disclosed on the good-faith estimate?

Ivy Jackson: Yes, we are. Now remember that that 10% tolerance as Bart said is cumulative. So if you had \$1500 in charges that were - that totaled, then that's - for appraisal, credit report, title, and all of that was \$1500 for example, then 10% is going to be \$150. So if charges or if the price of the settlement service changes prior to settlement, then there's \$150 that could be used to make up for that charge.

But once you go over that tolerance of \$150, then you need to refund that amount back to the borrower. That becomes the whole point of holding the - making the GFE firm enough that borrowers actually can shop, that they're not going to be hit with all of these add ons and higher costs at the settlement table.

Bart Shapiro: That's probably also a good time to re-emphasize Ivy's point earlier about the greater communication at the early part of this process between mortgage brokers and lenders and that it's - at least it was perceived that the lenders

would be putting out how to follow the procedures just like for their own loan officers - that the mortgage brokers would know that they were going to have to follow.

And it would be also to see that there's greater communication to determine how accurate the fees estimates are so that there shouldn't be a problem later on, that there's some complication and the lender says that it can't meet the tolerances or something of that nature and then the lender has to wind up having to make a cure when it might not have had to do so, had there been greater communication at the front end of the transaction. So there really needs to be a lot more communication between both parties at the end, the broker and the lender.

Rhonda Daniels: One of the related questions, if there is an error on the HUD 1 outside of the tolerance, could the lender require the broker to cover the difference? If we can require the broker to cover the difference, can we do this by netting the amount of the error from the yield spread premium we pay to the broker?

Ivy Jackson: Well, you have to remember that if you're saying that you are - when you reduce the - any payment to the broker, you cannot do that by reflecting or reducing a credit to the borrower. So if there was a yield spread premium shown that the borrower is actually getting, in that example a \$3000 credit, you can't reduce that on the GFE or the HUD 1.

So that's more between you and the broker as to if you clearly told him that here are your charges and he under estimated them on the good-faith estimate so that there could be a credit shown on the HUD from the broker.

Rhonda Daniels: Can you have a loan that has discount points and a yield spread premium shown on the good-faith estimate? It says that you can only choose one in box 2 of page 2 of the good-faith estimate.

Ivy Jackson: You shouldn't really have a loan that has - and where there is a broker - you cannot charge points on a loan where there is an overage.

Rhonda Daniels: If we require title insurance in order to close the loan, are we required to provide a list of title insurance companies to choose from as a required provider?

Ivy Jackson: Okay, you can - let's go back again on this. You may have required services to close the loan, but that's not the same thing as requiring a particular provider. So you may allow borrowers to shop for the title agent or closing agent and title insurance just because he's on the list that you have based your estimate on that.

Now while true that nothing in RESPA prohibits - if you don't have an affiliated business arrangement, then the lender can require the use of a particular title insurance company. But the purpose of the list is to show this is who the estimate was based on. The purpose is not to say to the borrower you can only choose someone off that list.

Rhonda Daniels: How would the buyer indicate an intent to proceed with the good-faith estimate?

Ivy Jackson: Well, I think that would be the same way they're showing an intent to proceed now. Whether you require an email or something in writing, you should notify them. And the purpose in the first page of the GFE in the top it says that if you decide you'd like to proceed with the loan, contact us. And if you have an

application that's online or something of that nature, I would think that you'd have something developed or email or something that you would still be communicating with the borrower electronically. But that's up to you.

Rhonda Daniels: Just to notify all of our participants, we are going to go a few minutes over. We do have a lot of questions and we want to get to as many of those questions as possible.

Another question on the good-faith estimate, page 3 of the GFE states that certain charges cannot increase. We assume that a decrease in fees would be allowable and we would not be required to re-disclose. Is that correct?

Ivy Jackson: Yes, that is correct. We encourage charging the borrower less at closing. So that would not trigger any re-disclosure under HUD's rules.

Rhonda Daniels: And concerning the GFE with respect to the trade off table, is the trade off table optional? If we choose not to complete it, do we have to show n/a or not applicable in the box?

Ivy Jackson: No, you have to complete the first column because that is the information regarding the loan on which you are giving the GFE. But column 2 and column 3 are optional. You may not have a loan product that - where - that you're offering a higher interest rate for lower settlement costs or vice versa. So that is up to you.

I will say that when HUD did its testing, that consumers appeared to like the fact that those columns were filled out. They felt like they had more choice.

Rhonda Daniels: Does the service release premium have to be included on the GFE?

Ivy Jackson: The service release premium is a credit. I mean, I'm sorry, I'm thinking yield spread. Service release premiums no. Service release premiums are typically if you were looking at it as what the lender receives after the loan is sold in the secondary market. RESPA does not cover charges in the secondary market. It only includes information that is conditional on the settlement and funding of the loan. So that is not required.

Rhonda Daniels: Do the new RESPA rules eliminate the need for the affiliated business arrangement disclosure?

Ivy Jackson: No, they do not. So if your loan officer either says how about - why don't you use our title company or we have Title Company ABC that would be good or if it's on the list, that's considered a referral to an affiliate and you must give the affiliated business disclosure.

I saw an odd affiliated business disclosure several months ago. The lender sent out a disclosure but basically it said from three days of the date of the GFE we're going to - if we don't hear from you, we're going to assume you want to use our affiliated title company. And that was on HUD's required affiliated business disclosure. The purpose of that affiliated business disclosure is not to make a contractual obligation to use an affiliate. Let me just point that out.

Rhonda Daniels: Where does the lender get the information in order to fill out the summary of your loan chart on the first page of the good-faith estimate?

Ivy Jackson: Well, this is basic information about the loan. One of the parts of the information is the loan amount, get that from the borrower. Applying for a 30-year or 15-year loan. Your initial interest rate. And that doesn't mean that the rate is locked at that time. And then you're going to have to figure out what -

based on what loan amount, what the payment for principal, interest, and if there's any mortgage insurance.

And I think some of these answers, can your interest rate rise, well, if it's an adjustable rate mortgage, then you would check yes. And if there is an ARM or something with an maximum rise of six points on a 5% loan, then your maximum interest rate is going to be 11%.

The second, if you make your payments on time, can you loan balance rise, if you're allowing for some type of option ARM where the principal balance could rise because of negative amortization, then you're going to have to put what the maximum that loan balance can rise to and monthly amount of the payment. And you should know whether the loan has a balloon or not.

So that's what the borrower knows, that he starts looking is he comparing apples to apples on comparing GFE to GFE.

Rhonda Daniels: And how would you enter the single rate lock period where the applicant elects to close and has not selected one of the several rate lock period options? Is the borrower required to locked in a rate at the time the GFE is provided?

Ivy Jackson: No, the borrower may let the rate float. It's not required to lock in.

Rhonda Daniels: But if the GFE is supposed to be a listing of the costs of the loan, which closing charges such as transfer taxes are required to be listed as a zero tolerance?

Bart Shapiro: It's the transfer charges and especially the origination charges and then the calculation of how you have your adjusted origination charges. That's what's going to be the zero tolerance section of the good-faith estimate.

Rhonda Daniels: Great. I think we have reached the end of our time together. And I want to thank Ivy and Bart for presenting today and for answering our questions. Ivy and Bart have graciously accepted our invitation to respond to your questions. You can contact them at the address provided in the handout that you have in front of you. And if you have any other questions, please contact us at OTS and we will get the questions over to HUD.

At this time I'm going to ask the operator to say a few words. Operator?

Coordinator: Thank you and this does conclude today's call. A transcript of today's call will be posted on the OTS Web site. We thank you for your participation. At this time you may disconnect your line.

END