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New mortgage form delivers mixed message

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Posted: 03/11/2010 12:42:34 PM PST

Updated: 03/11/2010 12:42:35 PM PST

If you're a prospective homebuyer exploring Silicon Valley real estate this spring, there's plenty to learn about, from bank-owned properties to the strict criteria for getting a mortgage these days. And now the federal government has added something to the mix, aimed at helping buyers shop for loans: the revamped Good Faith Estimate.

Designed by the U.S. Department of Housing and Urban Development to help borrowers better understand the terms of their loans, the new three-page form has been a required part of the mortgage application process since Jan. 1.

In some ways, the form is doing its job, experts say — and in other ways it's adding confusion to a process that already beseiges buyers with a mind-boggling array of details.

"There are issues with the form — in places it is cumbersome and confusing," said Diane Thompson, an attorney with the National Consumer Law Center. "But it is nonetheless a dramatic improvement over where we were."

But many in the mortgage industry — which fought against the development of the new form — say it is causing so much confusion it's actually spawning additional, explanatory forms, causing delays in some transactions, and leaving some borrowers worried about signing papers that don't reflect what they'll really have to pay.

"It's not clear. It's not simple," said Doug Jones, a broker at Mortgage Magic in San Jose.

But Thompson said the good faith estimate forms that had evolved over the past 30 years "were a mess because they weren't standardized." Now, standardized terminology and a fuller disclosure of fees benefit borrowers, she said.

Before the form was redesigned, good faith estimates had "no teeth" to bite lenders or brokers who pumped up their fees between the time a customer applied and closed the loan, said Nina Simon, director of litigation for the Center for Responsible Lending in Washington, D.C.

But the new form stipulates that some charges — such as the loan origination fee — can't change at all after they've been quoted to a customer on a good faith estimate. Other charges, such as those for some title company services, can only increase 10 percent. If those fees increase more than 10 percent after the good faith estimate is issued, the lender must pay the difference.

In addition, the good faith estimate has a section written in straightforward language that spells out each loan's basic terms. For example, one line says "Can your interest rate rise?" Followed by check-boxes for "No" and "Yes, it can rise to a maximum of ___. The first change will be in ___."

But mortgage brokers have developed a long list of complaints about the new form.

For example, there's nowhere to show how much the borrower will pay in pro-rated property taxes.

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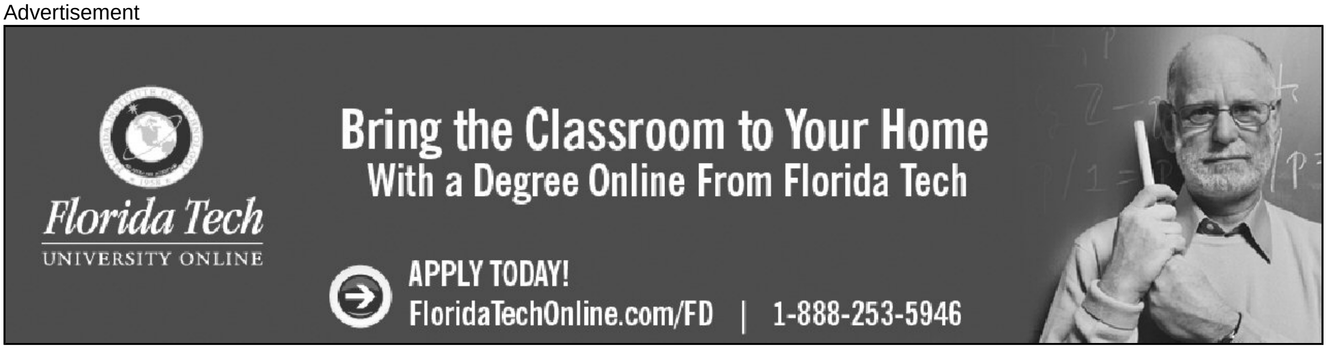

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And brokers have the incentive to inflate the estimate of their fees, because once they've issued the good faith estimate, they can't boost those fees, even if subsequent changes to the loan package cut into their compensation.

But HUD, which redesigned the decades-old form in the wake of the subprime mortgage crisis, says that those who are complaining about the new procedure misunderstand its intent. A document on the HUD website devotes 31 pages to explaining the form.

"It's designed to be a shopping document, to allow borrowers to be able to select the very best loan available to them," said HUD spokesman Brian Sullivan.

Still, some borrowers end up confused, expecting a document that says "total estimated settlement charges" at the bottom will, well, provide an estimate of total settlement charges.

But, because of what's included — and omitted — from the three-page form, the amount shown on the bottom line is often significantly different from what the customer will actually have to pay to close the transaction. For example, in the Bay Area, the "transfer taxes" that are due when property changes hands are typically paid by sellers. But they must be reflected on the GFE form, and can amount to thousands of dollars, prompting some borrowers to assume the amount shown on the form is one they must pay.

When Warner de Gooijer applied for a loan to buy a home in San Jose recently, he was confounded by the huge dollar figure looming at the bottom of the good faith estimate, which must be provided to borrowers within three business days of when they apply for a mortgage.

Then his loan officer explained that he wouldn't actually have to pay the amount shown at the bottom of the good faith estimate.

"But do I trust my loan officer or the paper I'm signing?" said de Gooijer, who nervously wondered w hether he'd be liable for the large amount anyway.

"The GFE is intended to help borrowers compare loans and costs for loans," said Tracie Southerland of Opes Advisors, a mortgage lender in Palo Alto t hat worked with de Gooijer. "What borrowers come to us to know is, 'When I get to the closing table, what kind of check am I writing?' The new GFE does not have any place that captures that."

The change is prompting some lenders to develop new worksheets of their own, so they can show the customer what he or she might really have to fork over at closing.

"I should never have to ask a borrower to sign one thing, while on a separate sheet of paper I'm telling them what the real deal is," said Faramarz Moeen-Ziai, mortgage banker at Bank of Commerce Mortgage in San Ramon.

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GOOD FAITH ESTIMATE

What is it? A newly standardized form that lenders and mortgage brokers must provide within three business days to those who apply for mortgages.
Why? The federal government designed the form to allow borrowers to compare loans more easily, avoid bait-and-switch tactics, and clearly see the terms and costs of a mortgage, as well as how

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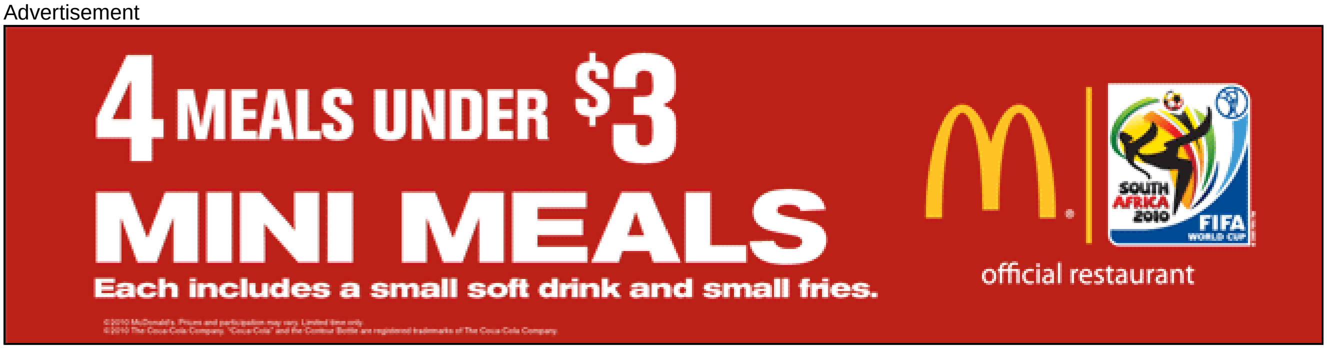

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much the lender or broker makes on the loan.
What''s the controversy? While some applaud the form''s straightforward language and its intent, others say the form is confusing and is causing delays in home purchase and refinance transactions.

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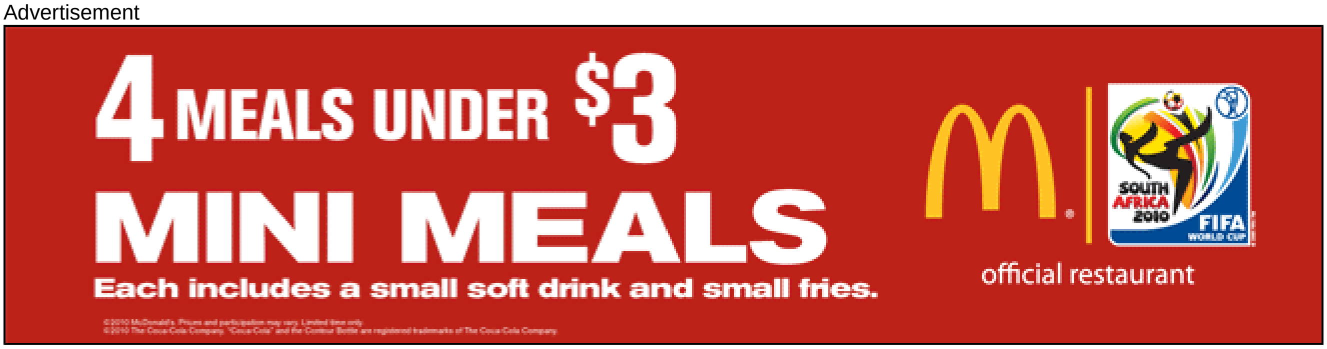

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