



Complying with new GFE requirements

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THIS YEAR HAS BROUGHT SIGNIFICANT CHANGES TO THE mortgage industry—changes that impact all mortgage lenders. On January 1, 2010, the Department of Housing and Urban Development (HUD) implemented the final segment of its rule to reform the Real Estate Settlement Procedures Act (RESPA), the new Good Faith Estimate (GFE) and HUD-1 Settlement Statement. HUD wants to create greater transparency in the settlement process and require greater accountability from lenders, so it is no surprise that the department is committed to its new disclosure and accompanying regulations.

In order to remain compliant, credit unions must adapt their lending processes to these new regulations, particularly when providing a Good Faith Estimate (GFE).

The standardized GFE form

The new HUD regulation requires mortgage lenders and brokers to provide borrowers with a standard three-page GFE form within three business days of receiving an application. HUD defines an application as “the submission of a borrower’s financial information in anticipation of a credit decision relating to a federally related mortgage loan, which shall include the borrower’s name, the borrower’s monthly income, the borrower’s social security number to obtain a credit report, the property address, an estimate of the value of the property, the mortgage loan amount sought and any other information deemed necessary by the loan originator.”

The new GFE form is the highlight of the final RESPA rule and represents the nuts and bolts of RESPA reform. HUD hailed the new disclosure as the best way to provide consumers with more information about the terms of a mortgage loan and the anticipated settlement costs to assist them in shopping for the best deal.

The new GFE form provides for the estimate of total settlement costs in the following 11 categories:

- 1) the origination charge, which includes any lender

- processing and underwriting fees, as well as broker charges;
- 2) a credit (yield spread premium) or charge (discount points) for the interest rate chosen;
- 3) required services selected by the lender, such as appraisal and flood certification fees;
- 4) title service fees and the cost of lender’s title insurance;
- 5) owner’s title insurance;
- 6) other required services for which the consumer may shop, such as pest inspections and surveys;
- 7) government recording charges;
- 8) transfer tax charges;
- 9) initial deposit for escrow;
- 10) daily interest charges; and
- 11) the cost of homeowner’s insurance (including flood insurance, if applicable).

In addition to the required disclosures on the form itself, the final rule requires a mortgage lender or broker to keep the GFE’s stated settlement costs open for a minimum of 10 business days to allow the consumer to comparison shop with other lenders.

The 3-7-3 Rule

Prior to the start of the new year, the Mortgage Disclosure Improvement Act (MDIA) went into effect. Known as the “3-7-3” Rule, it requires the Good Faith Estimate (GFE) to be provided within three days of the borrower’s application. The closing cannot occur for seven days after initial disclosures are provided and, if the final closing figures are not within specific tolerances of the initial disclosure figures, re-disclosure is required—plus a three-day additional waiting period before closing.

This act also prohibits the lender from charging initial fees to the borrower (except for a reasonable credit report fee) until the borrower has received his or her initial disclosures. If the disclosures are printed and mailed to the borrower, the

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or manager position and to evaluate them against the current competencies of the potential successor(s). This provides a foundation for the additional steps that will need to be taken to prepare the successor for future responsibilities.

- **Education:** Whether you're sending the employee to complete a degree, take specific courses or attend workshops on key topics, education will create a base level of knowledge that he/she may not currently have—and then can be built upon through on-the-job experiences. The educational focus should be based on the core competencies that were identified in the previous step, particularly the competencies which offer the most opportunity for development.
- **Delegation:** Delegation is a powerful tool for developing a successor. This process should start several years prior to the planned succession, and should include both passive and direct delegation. For example, have the employee simply observe meetings and tasks or permanently hand off core responsibilities, such as financial reporting or preparing for a board meeting. This delegation creates an avenue for slow but steady transitions, and prepares a successor to fill in should an emergency succession be required.
- **Networking:** This is another significant piece of the puzzle. When the current CEO permanently steps down and the successor is on his/her own, unexpected issues and questions will inevitably arise. By encouraging the successor to establish connections and relationships with other credit union managers and executives, you can create the support network necessary to help him/her through the early (and future) stages of management. Bring him/her to events and conferences you normally attend, and introduce peers, vendors and consultants you've established relationships with over time.
- **Management and leadership training:** Finally, and perhaps most importantly, make sure the successor gets

the training, coaching and practical experience needed to manage employees and provide leadership. All too often, managers are promoted based on their past performance and operational expertise without having had the practical experience of leading and managing people. Start involving the successor early in employee coaching and performance-related conversations. Send him/her to outside training on leadership, performance management and employee development. While this core competency is one that develops over time and through experience, it is critical that a successor develops the basic skills to address employee situations when they come up.

While there are many other considerations, addressing these core areas will help you establish a more detailed employee development and succession plan—and ensure the future stability of your credit union. □

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originator cannot assume the borrower has received them (and so cannot charge other initial fees) until three full business days have elapsed after mailing.

Conclusion

These changes are the most significant the mortgage lending industry has seen in more than 20 years, as they impact a lender's ability to modify and change purchase transactions. Additionally, any "change" to rates, fees, extensions, sales prices, credits or other areas that may affect the APR of a loan can compromise the timing of a closing.

Although HUD refrained from pursuing enforcement actions against lenders making good faith efforts to comply with the rule during the first four months of 2010, that grace period is nearly over. If your credit union has not already transitioned to the new GFE form, now is the time to do so. □

To learn more about the services provided by CUC Mortgage, visit www.cucmortgage.com, or contact Richard Maxstadt at richard.maxstadt@cucmortgage.com or (800) 342-9835, ext. 8115.