

SETTLEMENT PROCEDURES

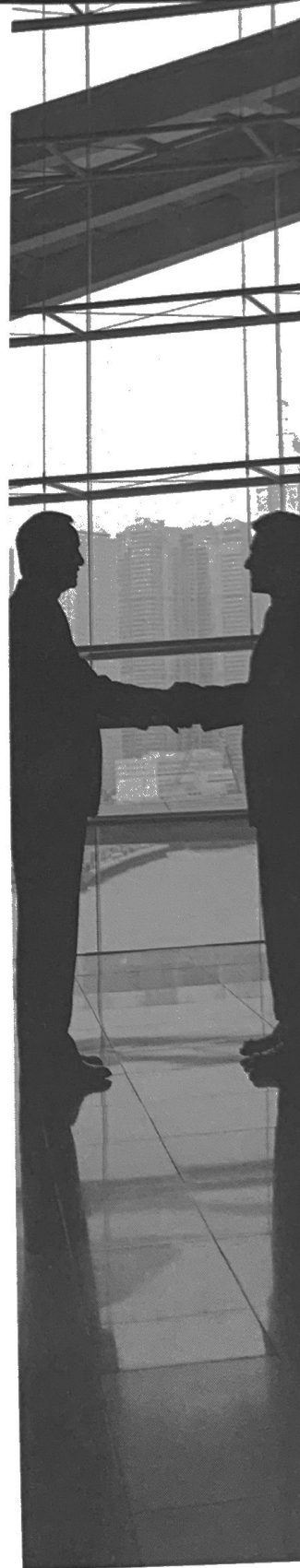
KEY TERMS AND PHRASES

Annual percentage rate (APR)	Loan status report
<i>Buying Your Home</i> (HUD guide-book)	Preliminary title report
Closing instructions	Prepaid items
Closing Statement	Real Estate Settlement Procedures Act (RESPA)
Credit reports	Red flags
Designated service providers	Recording fees
Disbursement procedures	Reserves
Escrow closing	Right of rescission
Finance charge	Settlement agent
Good faith estimate	TILA-RESPA Integrated Disclosure
HUD-1 settlement statement	Title insurance
Kickbacks	Truth-in-Lending Act (TILA)

LEARNING OBJECTIVES

At the conclusion of this chapter, students will be able to:

- Understand the key provisions of the Real Estate Settlement Procedures Act
- Describe how the Loan Estimate Form formerly known as (F/K/A) the good faith estimate is used and delivered in the settlement process
- Explain the Truth-in-Lending Act disclosures—both prior to loan application (in advertising) and prior to loan closing—with regards to the annual percentage rate (APR)
- Explain the unique disclosure requirements of the Truth-in-Lending Act, including the right of rescission
- Describe the reasons for many of the closing costs listed on the Closing Disclosure Form (F/K/A) HUD-1



INTRODUCTION

Since property laws involving ownership and conveyance of land are essentially determined by each state, differences are reflected in the methods used to close, or settle, real estate transactions. Customs and practices have developed in every region of the country that best suit its unique business and legal requirements. The person or company selected to bring together the instruments of conveyance, mortgages, promissory notes, and, of course, the monetary consideration to be exchanged between the buyer and seller of real estate is most generally known as the **settlement agent**. The agent can be a lender, a real estate broker, a title company, an attorney, or a company specializing in these procedures, called an *escrow company*. In most parts of the country, the settlement agent arranges for the principals involved in the transaction to meet at a location where all the documents needed to transfer title and to secure and fund a loan can be reviewed and executed. At the conclusion of this process, if all documents are in order, the instruments and the money are then distributed to the various parties entitled to receive them.

Another procedure, called **escrow closing**, is commonly used in some states. In this procedure, however, the parties involved do not meet around a table to sign instruments or exchange cash or documents. Rather, at the time of entering a contract of sale, the parties sign an escrow agreement. The agreement requires the deposit of certain documents and funds with the escrow agent within an agreed-upon time. The agent is responsible for meeting the requirements of the escrow agreement, which usually include the adjustment of taxes, insurance, and rentals, if any, between the buyer and seller. The agreement also includes the payoff of any existing loan, if required, arrangements for hazard insurance coverage, the computing of interest, and any other requirements for a new loan. If all papers and monies are deposited within the agreed-upon time limit, the escrow is considered closed. The appropriate documents are then recorded and delivered to the proper parties along with the money that each is entitled to receive.

It was this area of diverse procedures that Congress focused on and began to regulate in 1974. The purpose of the proposed legislation, by Congress's own findings, was to protect consumers from "unnecessarily high settlement charges caused by certain abusive practices that have developed in some areas of the country." The result of these efforts was

the **Real Estate Settlement Procedures Act (RESPA)**. A subsequent amendment in 1976 resolved some of the problems that had developed from the initial act. Implementation was assigned to HUD, which makes periodic changes in the rules to accommodate new requirements. RESPA does not change any local practices and sets no prices for settlement services. It is primarily directed toward providing better information on the settlement process so that a home buyer can make informed decisions.

PRELIMINARY INFORMATION

Two pieces of information are closely associated with the settlement of a real estate transaction: an existing loan status report and a preliminary title report. We will discuss them separately because of their special usefulness in any property disposition. Many good real estate brokers arrange for both pieces of information at the time a property is listed for sale. In this way, any problems with either an existing loan or legal title to the property are discovered early on, allowing more time for resolution before the seller is faced with an impending closing date. It is very important that the seller or agent have accurate information on these two subjects because they are of critical interest to any prospective buyer.

Loan Status Report

Several different names are used within the industry to describe the information contained in an existing mortgage **loan status report**. Some call it a *mortgagor's information letter*, some a *mortgagee's report*, and others the *prequalification form*. Adding to the confusion, in some areas of the country a *mortgagee's information letter* means a preliminary title report on the land. For our purposes, a loan status report is a report on the current status of an existing loan prepared by the mortgagee for the mortgagor. It is a statement, usually in letter form, citing the remaining balance due on the loan, the monthly payments required, the reserve held in the escrow account, and the requirements and cost of a loan payoff.

A request for this information must come from the mortgagor, although brokers often use form letters for the request that require only the mortgagor's signature. While this information is very helpful in providing accurate financial information, it is not normally used by the settlement agent in closing a real estate transaction. The agent must call for a current

report immediately prior to closing so that it reflects the loan status as of the date of settlement.

Preliminary Title Report

When an earnest money contract has been signed, it is a good idea to “open title” with whatever title insurance company has been selected to handle the closing. Under RESPA rules, the seller may not require that title insurance be purchased from a particular title company as a condition of the sale. However, the mortgage lender has a right to accept or reject a proposed title company, as the insurance coverage must be adequate for the lender. To facilitate selection, lending institutions are required to submit a statement to the borrower listing acceptable title companies and attorneys, along with the charges the borrower might expect. Also, any business relationship between the lender and a settlement service provider must be disclosed. In practice, the title company selected is normally located in the same county as the property being sold.

A **preliminary title report** is normally furnished by the title company to both the real estate agent and the mortgage company. The information contained is a confirmation of the correct legal description, and it also includes the names of the owners of the property as filed in the county records, any restrictions or liens on the property, any judgments against the owners of record, and a listing of any requirements the title company may have to perfect title before issuance of a title insurance policy. The report is for information only; it is not to be confused with a *title binder*, which legally obligates the title company for specific insurance. Title companies normally make no charge for the preliminary report, as it is part of their service in anticipation of writing the title insurance policy at closing.

RESPA REQUIREMENTS

As amended in 1976, RESPA applies to residential mortgage loans only. Commercial loans are not included in the provisions of the act. Residential mortgage loans are defined as those used to finance the purchase of one-to four-family housing, a condominium, a cooperative apartment unit, a lot with a mobile home, or a lot on which a house is to be built or a mobile home located. RESPA requirements can be divided into two general categories: (1) information requirements, and (2) prohibited practices.

Information Requirements

Lenders are required to furnish certain specific information to each loan applicant and additional information to the borrower prior to closing a loan, as follows.

Information Booklet

At the time of a loan application, or not more than three business days later, the lender must give the applicant a copy of the 1997 revised HUD-prepared booklet entitled **Buying Your Home**. The booklet is prepared by the Office of Consumer Affairs and Regulatory Functions of the U.S. Department of Housing and Urban Development. This booklet will shortly be updated and revised for the new Closing Disclosure form.

Part One of this booklet describes the settlement process and the nature of the charges that are incurred. It suggests questions for the home buyer to ask that might help clarify charges and procedures. It also lists unfair and illegal practices and gives information on the rights and remedies available to home buyers should they encounter a wrongful practice.

Part Two is an item-by-item explanation of settlement services and costs. Sample forms and worksheets are included to help guide home buyers in making cost comparisons.

Loan Estimate (F/K/A) Good Faith Estimate

Within three business days of accepting a loan application, a lender is required to submit a Loan Estimate (F/K/A, formerly known as the **good faith estimate**) of settlement costs to the loan applicant. Settlement charges are estimated for each item anticipated, except for prepaid hazard insurance and cash reserves deposited with the lender. (Reserves are subject to RESPA restrictions, which are detailed later.) The estimate may be stated as a dollar amount, and the information must be furnished in a clear and concise manner using the Loan Estimate promulgated form. The good faith estimate form, illustrated in Figure 16-1 has been replaced with the new disclosure form called Loan Estimate (Figure 16.2). The Loan Estimate form uses the terminology, but no longer the account numbers, from Section L of the mandatory Settlement Statement (see Figure 16-4).

This form will be replaced by the TILA-RESPA Integrated Disclosure, discussed later in this chapter (after the RESPA Roundup).



Good Faith Estimate (GFE)

OMB Approval No. 2502-0265

Name of Originator	Borrower
Originator Address	Property Address
Originator Phone Number	Date of GFE
Originator Email	

Purpose

This GFE gives you an estimate of your settlement charges and loan terms if you are approved for this loan. For more information, see HUD's *Special Information Booklet* on settlement charges, your *Truth-in-Lending Disclosures*, and other consumer information at www.hud.gov/respa. If you decide you would like to proceed with this loan, contact us.

Shopping for your loan

Only you can shop for the best loan for you. Compare this GFE with other loan offers, so you can find the best loan. Use the shopping chart on page 3 to compare all the offers you receive.

Important dates

1. The interest rate for this GFE is available through . After this time, the interest rate, some of your loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available through .
3. After you lock your interest rate, you must go to settlement within days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least days before settlement.

Summary of your loan

Your initial loan amount is	\$
Your loan term is	years
Your initial interest rate is	%
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	\$ per month
Can your interest rate rise?	☐ No ☐ Yes, it can rise to a maximum of %.
Even if you make payments on time, can your loan balance rise?	☐ No ☐ Yes, it can rise to a maximum of \$
Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	☐ No ☐ Yes, the first increase can be in and the monthly amount owed can rise to \$. The maximum it can ever rise to is \$
Does your loan have a prepayment penalty?	☐ No ☐ Yes, your maximum prepayment penalty is \$
Does your loan have a balloon payment?	☐ No ☐ Yes, you have a balloon payment of \$ due in years.

Escrow account information

Some lenders require an escrow account to hold funds for paying property taxes or other property-related charges in addition to your monthly amount owed of \$.

Do we require you to have an escrow account for your loan?

☐ No, you do not have an escrow account. You must pay these charges directly when due.

☐ Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.

Summary of your settlement charges

A	Your Adjusted Origination Charges (See page 2.)	\$
B	Your Charges for All Other Settlement Services (See page 2.)	\$
A + B	Total Estimated Settlement Charges	\$

Good Faith Estimate (HUD-GFE) 1

FIGURE 16-1 Good Faith Estimate
Source: www.HUD.gov

Understanding
your estimated
settlement charges

Some of these charges
can change at settlement.
See the top of page 3 for
more information.

Your Adjusted Origination Charges									
1. Our origination charge This charge is for getting this loan for you.									
2. Your credit or charge (points) for the specific interest rate chosen ☐ The credit or charge for the interest rate of % is included in "Our origination charge." (See item 1 above.) ☐ You receive a credit of \$ for this interest rate of %. This credit reduces your settlement charges. ☐ You pay a charge of \$ for this interest rate of %. This charge (points) increases your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.									
A Your Adjusted Origination Charges	\$								
Your Charges for All Other Settlement Services									
3. Required services that we select These charges are for services we require to complete your settlement. We will choose the providers of these services. <table border="1"> <thead> <tr> <th>Service</th> <th>Charge</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>	Service	Charge							
Service	Charge								
4. Title services and lender's title insurance This charge includes the services of a title or settlement agent, for example, and title insurance to protect the lender, if required.									
5. Owner's title insurance You may purchase an owner's title insurance policy to protect your interest in the property.									
6. Required services that you can shop for These charges are for other services that are required to complete your settlement. We can identify providers of these services or you can shop for them yourself. Our estimates for providing these services are below. <table border="1"> <thead> <tr> <th>Service</th> <th>Charge</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>	Service	Charge							
Service	Charge								
7. Government recording charges These charges are for state and local fees to record your loan and title documents.									
8. Transfer taxes These charges are for state and local fees on mortgages and home sales.									
9. Initial deposit for your escrow account This charge is held in an escrow account to pay future recurring charges on your property and includes ☐ all property taxes, ☐ all insurance, and ☐ other .									
10. Daily interest charges This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. This amount is \$ per day for days (if your settlement is).									
11. Homeowner's insurance This charge is for the insurance you must buy for the property to protect from a loss, such as fire. <table border="1"> <thead> <tr> <th>Policy</th> <th>Charge</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> </tbody> </table>	Policy	Charge							
Policy	Charge								
B Your Charges for All Other Settlement Services	\$								
A + B Total Estimated Settlement Charges	\$								



Good Faith Estimate (HUD-GFE) 2

FIGURE 16-1 (Continued)

Instructions

Understanding which charges can change at settlement

This GFE estimates your settlement charges. At your settlement, you will receive a HUD-1, a form that lists your actual costs. Compare the charges on the HUD-1 with the charges on this GFE. Charges can change if you select your own provider and do not use the companies we identify. (See below for details.)

These charges cannot increase at settlement	The total of these charges can increase up to 10% at settlement	These charges can change at settlement
- Our origination charge - Your credit or charge (points) for the specific interest rate chosen (after you lock in your interest rate) - Your adjusted origination charges (after you lock in your interest rate) - Transfer taxes	- Required services that we select - Title services and lender's title insurance (if we select them or you use companies we identify) - Owner's title insurance (if you use companies we identify) - Required services that you can shop for (if you use companies we identify) - Government recording charges	- Required services that you can shop for (if you do not use companies we identify) - Title services and lender's title insurance (if you do not use companies we identify) - Owner's title insurance (if you do not use companies we identify) - Initial deposit for your escrow account - Daily interest charges - Homeowner's insurance

Using the tradeoff table

In this GFE, we offered you this loan with a particular interest rate and estimated settlement charges. However:

- If you want to choose this same loan with **lower settlement charges**, then you will have a **higher interest rate**.
- If you want to choose this same loan with a **lower interest rate**, then you will have **higher settlement charges**.

If you would like to choose an available option, you must ask us for a new GFE.

Loan originators have the option to complete this table. Please ask for additional information if the table is not completed.

	The loan in this GFE	The same loan with lower settlement charges	The same loan with a lower interest rate
Your initial loan amount	\$	\$	\$
Your initial interest rate ¹	%	%	%
Your initial monthly amount owed	\$	\$	\$
Change in the monthly amount owed from this GFE	No change	You will pay \$ more every month	You will pay \$ less every month
Change in the amount you will pay at settlement with this interest rate	No change	Your settlement charges will be reduced by \$	Your settlement charges will increase by \$
How much your total estimated settlement charges will be	\$	\$	\$

¹ For an adjustable rate loan, the comparisons above are for the initial interest rate before adjustments are made.

Using the shopping chart

Use this chart to compare GFEs from different loan originators. Fill in the information by using a different column for each GFE you receive. By comparing loan offers, you can shop for the best loan.

	This loan	Loan 2	Loan 3	Loan 4
Loan originator name				
Initial loan amount				
Loan term				
Initial interest rate				
Initial monthly amount owed				
Rate lock period				
Can interest rate rise?				
Can loan balance rise?				
Can monthly amount owed rise?				
Prepayment penalty?				
Balloon payment?				
Total Estimated Settlement Charges				

If your loan is sold in the future

Some lenders may sell your loan after settlement. Any fees lenders receive in the future cannot change the loan you receive or the charges you paid at settlement.



Good Faith Estimate (HUD-GFE) 3

FIGURE 16-1 (Continued)

Servicing Disclosure Statement

Servicing Disclosure Statement is required under the same 3-day disclosure rule where the lender must disclose whether or not the servicing of the loan may be assigned, sold, or transferred to any other person at any time while the loan is outstanding. The disclosure is delivered to the applicant usually by the processor, loan originator of a insured financial institution or mortgage broker.

The lender or broker is required to deliver the disclosure that is required under the Consumer Finance Protection Board (CFPB) Regulation X 12 CFR 1024. Regulation X as described as the Federal Reserve Regulation that covers the initial implementation of RESPA has in its appendix MS-1 a sample template that specifies the content requirements of the template with some leeway as to additional information

Where Are We Now?

RESPA, the Real Estate Settlement Procedures Act

As of July 21, 2011, the Real Estate Settlement Procedures Act (RESPA) is administered and enforced by the consumer financial Protection Bureau (CFPB).

Consumers with questions or complaints related to their mortgage or mortgage servicer can contact the CFPB's Consumer Response team at 855-411-2372 (855-729-2372 TTY/ TDD) or can click on: <http://www.consumerfinance.gov/>.

Settlement service providers with questions about RESPA can email the CFPB at CFPB_RESPAInquiries@cfpb.gov.

The Real Estate Settlement Procedures Act (RESPA) ensures that consumers throughout the nation are provided with more helpful information about the cost of the mortgage settlement and protected from unnecessarily high settlement charges caused by certain abusive practices.

The most recent RESPA Rule makes obtaining mortgage financing clearer and, ultimately, cheaper for consumers.¹

¹ Department of Housing and Urban Development. "RESPA—Real Estate Settlements Procedures Act." Accessed Aug. 21, 2011 at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/res/respa_hm

that clears up or improves the model language and best explains the specific situation. A sample of a Servicing Disclosure Statement is in the Appendix.

RESPA Roundup

In following up on the guidance given to the new CFPB, and after several years of the use of the GFE introduced in 2010 (as shown in Figure 16-1), a new combined GFE and Truth-in-Lending Disclosure form, now known as the **TILA-RESPA Integrated Disclosure**, or the **Loan Estimate** was introduced in October 3, 2015 (see Figure 16.2).

Designated Service Providers

If a lender designates settlement service providers—who perform such tasks as legal services, title examination, title insurance, or the conduct of the settlement—the normal charges for these specific providers must be incorporated into the Loan Estimate. Furthermore, when such a designation occurs, the lender must provide, as part of the Loan Estimate, the name, address, and telephone number of each designated provider. Any business relationship between the lender and an affiliated service provider must be fully disclosed, including an ownership interest of one percent or more. A rule issued by HUD in December 1992 prohibits any fee paid between affiliated companies for a referral, and there can be no condition requiring use of an affiliated company in consummation of the transaction.

Disclosure of Settlement Costs

As a part of the RESPA requirements, the newly required disclosure designed by the Consumer Financial Protection Bureau called the Closing Disclosure (Figure 16-3), a uniform settlement statement, is mandatory for residential loan closings. Account numbers and terminology are standardized on the form, and it is expected that settlement charges, however designated in various parts of the country, be fitted into this form. A copy of the completed form must be delivered by the settlement agent to both the buyer and the seller at or before the closing. Since some of the information needed to complete the form may not be available until the time of actual closing, the borrower may waive the right of delivery at closing. However, in such a case, the completed settlement statement must be mailed at the earliest practical date.

ABC Mortgage Company
456 Front Street - Anytown, USA

Loan Estimate

DATE ISSUED 10/3/2015
APPLICANTS Joe Borrower
123 Front Street
Anytown, USA 000000

PROPERTY 777 Gadzooks Drive, Anytown, USA 00000
Lot 7 Block 11, Small Mountain Subdivision
SALE PRICE \$180,000

Save this Loan Estimate to compare with your Closing Disclosure.

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐
LOAN ID # 123456789
RATE LOCK ☐ NO ☒ YES, until 4/16/2013 at 5:00 p.m. EDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 10/15/2016, 5:00 p.m. EDT

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
Prepayment Penalty	YES	• As high as \$3,240 if you pay off the loan during the first 2 years
Balloon Payment	NO	

Projected Payments

Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82	+ —
Estimated Escrow <i>Amount can increase over time</i>	+ 206	+ 206
Estimated Total Monthly Payment	\$1,050	\$968

Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$206 a month	This estimate includes ☒ Property Taxes ☒ Homeowner's Insurance ☐ Other: See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.	In escrow? YES YES
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Costs at Closing

Estimated Closing Costs	\$8,054	Includes \$5,672 in Loan Costs + \$2,382 in Other Costs - \$0 in Lender Credits. See page 2 for details.
Estimated Cash to Close	\$16,054	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

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Closing Cost Details

Loan Costs

A. Origination Charges	\$1,802
.25 % of Loan Amount (Points)	\$405
Application Fee	\$300
Underwriting Fee	\$1,097

B. Services You Cannot Shop For	\$672
Appraisal Fee	\$405
Credit Report Fee	\$30
Flood Determination Fee	\$20
Flood Monitoring Fee	\$32
Tax Monitoring Fee	\$75
Tax Status Research Fee	\$110

C. Services You Can Shop For	\$3,198
Pest Inspection Fee	\$135
Survey Fee	\$65
Title - Insurance Binder	\$700
Title - Lender's Title Policy	\$535
Title - Settlement Agent Fee	\$502
Title - Title Search	\$1,261

D. TOTAL LOAN COSTS (A + B + C) \$5,672

Other Costs

E. Taxes and Other Government Fees	
Recording Fees and Other Taxes	\$85
Transfer Taxes	\$85

F. Prepays	
Homeowner's Insurance Premium (6 months)	\$867
Mortgage Insurance Premium (months)	\$605
Prepaid Interest (\$17.44 per day for 15 days @ 3.875%)	\$262
Property Taxes (months)	

G. Initial Escrow Payment at Closing	
Homeowner's Insurance \$100.83 per month for 2 mo.	\$413
Mortgage Insurance per month for 2 mo.	\$202
Property Taxes \$105.30 per month for 2 mo.	\$211

H. Other	
Title - Owner's Title Policy (optional)	\$1,017
	\$1,017

I. TOTAL OTHER COSTS (E + F + G + H) \$2,382

J. TOTAL CLOSING COSTS	\$8,054
D + I	\$8,054
Lender Credits	\$8,054

Calculating Cash to Close

Total Closing Costs (J)	\$8,054
Closing Costs Financed (Paid from your Loan Amount)	\$0
Down Payment/Funds from Borrower	\$18,000
Deposit	-\$10,000
Funds for Borrower	\$0
Seller Credits	\$0
Adjustments and Other Credits	\$0
Estimated Cash to Close	\$16,054

FIGURE 16-2 (Continued)

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

Closing Disclosure

Closing Information

Date Issued October 3rd, 2016
 Closing Date October 15th, 2016
 Disbursement Date October 19th, 2016
 Settlement Agent The Great Title Company, USA
 File # 1234567
 Property 777 Gadzooks Drive, Anytown, USA 00000
 Lot 7 Block 11, Small Mountain Subdivision
 Sale Price \$180,000

Transaction Information

Borrower Joe Borrower
 123 Front Street
 Anytown, USA 000000
Seller Hellen Seller
 321 Front Street
 Anytown, USA 000000
Lender ABC Mortgage Co
 456 Front Street
 Anytown, USA 000000

Loan Information

Loan Term 30 years
Purpose Purchase
Product Fixed Rate
Loan Type ☒ Conventional ☐ FHA
☐ VA ☐
Loan ID # 123456789
MIC # 000654321

Loan Terms

Loan Amount

\$162,000

Can this amount increase after closing?

NO

Interest Rate

3.875%

NO

Monthly Principal & Interest

\$761.78

NO

See Projected Payments below for your
 Estimated Total Monthly Payment

Prepayment Penalty

Does the loan have these features?

YES • As high as \$3,240 if you pay off the loan during the
 first 2 years

Balloon Payment

NO

Projected Payments

Payment Calculation

Years 1-7

Years 8-30

Principal & Interest

\$761.78

\$761.78

Mortgage Insurance

+ 82.35

+ —

Estimated Escrow
 Amount can increase over time

+ 206.13

+ 206.13

**Estimated Total
 Monthly Payment**

\$1,050.26

\$967.91

**Estimated Taxes, Insurance
 & Assessments**

\$356.13
 a month

This estimate includes

- ☒ Property Taxes
☒ Homeowner's Insurance
☒ Other: Homeowner's Association Dues

In escrow?

YES
 YES
 NO

Amount can increase over time
 See page 4 for details

See Escrow Account on page 4 for details. You must pay for other property
 costs separately.

Costs at Closing

Closing Costs

\$9,712.10

Includes \$4,694.05 in Loan Costs + \$5,018.05 in Other Costs - \$0
 in Lender Credits. See page 2 for details.

Cash to Close

\$14,147.26

Includes Closing Costs. See Calculating Cash to Close on page 3 for details.

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CLOSING DISCLOSURE

FIGURE 16-3 Closing Disclosure Settlement Statement for Residential Loans
 Source: www.consumerfinance.gov

Closing Cost Details

Closing Cost Detail		Borrower-Paid		Seller-Paid		Paid by Others
		At Closing	Before Closing	At Closing	Before Closing	
Loan Costs		\$1,802.00				
A. Origination Charges		\$405.00				
01	0.25 % of Loan Amount (Points)	\$300.00				
02	Application Fee	\$1,097.00				
03	Underwriting Fee					
04						
05						
06						
07						
08						
B. Services Borrower Did Not Shop For		\$236.55				
01	Appraisal Fee to John Smith Appraisers Inc.		\$29.80			\$405.00
02	Credit Report Fee to Information Inc.	\$20.00				
03	Flood Determination Fee to Info Co.	\$31.75				
04	Flood Monitoring Fee to Info Co.	\$75.00				
05	Tax Monitoring Fee to Info Co.	\$80.00				
06	Tax Status Research Fee to Info Co.					
07						
08						
09						
10						
C. Services Borrower Did Shop For		\$2,655.50				
01	Pest Inspection Fee to Pests Co.	\$120.50				
02	Survey Fee to Surveys Co.	\$85.00				
03	Title - Insurance Binder to The Great Title Company, USA	\$650.00				
04	Title - Lender's Title Insurance to The Great Title Company, USA	\$500.00				
05	Title - Settlement Agent Fee to The Great Title Company, USA	\$500.00				
06	Title - Title Search to The Great Title Company, USA	\$800.00				
07						
08						
D. TOTAL LOAN COSTS (Borrower-Paid)		\$4,694.05				
Loan Costs Subtotals (A + B + C)		\$4,664.25	\$29.80			
Other Costs						
E. Taxes and Other Government Fees		\$85.00				
01	Recording Fees Deed: \$40.00 Mortgage: \$45.00	\$85.00				
02	Transfer Tax to Any State			\$950.00		
F. Prepays		\$2,120.80				
01	Homeowner's Insurance Premium (12 mo.) to Insurance Co.	\$1,209.96				
02	Mortgage Insurance Premium (mo.)					
03	Prepaid Interest (\$17.44 per day from -10/15/16 to 11/1/16)	\$279.04				
04	Property Taxes (6 mo.) to Any County USA	\$631.80				
05						
G. Initial Escrow Payment at Closing		\$412.25				
01	Homeowner's Insurance \$100.83 per month for 2 mo.	\$201.66				
02	Mortgage Insurance per month for mo.					
03	Property Taxes \$105.30 per month for 2 mo.	\$210.60				
04						
05						
06						
07						
08	Aggregate Adjustment	- 0.01				
H. Other		\$2,400.00				
01	HOA Capital Contribution to HOA Acre Inc.	\$500.00				
02	HOA Processing Fee to HOA Acre Inc.	\$150.00				
03	Home Inspection Fee to Engineers Inc.	\$750.00				\$750.00
04	Home Warranty Fee to XYZ Warranty Inc.			\$450.00		
05	Real Estate Commission to Alpha Real Estate Broker			\$5,700.00		
06	Real Estate Commission to Omega Real Estate Broker			\$5,700.00		
07	Title - Owner's Title Insurance (optional) The Great Title Company, USA	\$1,000.00				
08						
I. TOTAL OTHER COSTS (Borrower-Paid)		\$5,018.05				
Other Costs Subtotals (E + F + G + H)		\$5,018.05				
J. TOTAL CLOSING COSTS (Borrower-Paid)						
Closing Costs Subtotals (D + I)		\$9,712.10				
Lender Credits		\$9,682.30	\$29.80	\$12,800.00	\$750.00	\$405.00

CLOSING DISCLOSURE

FIGURE 16-3 (Continued)

Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Loan Estimate	Final	Did this change?
Total Closing Costs (J)	\$8,054.00	\$9,712.10	YES • See Total Loan Costs (D) and Total Other Costs (I)
Closing Costs Paid Before Closing	\$0	-\$29.80	YES • You paid these Closing Costs before closing
Closing Costs Financed from your Loan Amount	\$0	\$0	NO
Down Payment/Funds from Borrower	\$18,000.00	\$18,000.00	NO
Deposit	-\$10,000.00	-\$10,000.00	NO
Funds for Borrower	\$0	\$0	NO
Seller Credits	\$0	-\$2,500.00	YES • See Seller Credits in Section L
Adjustments and Other Credits	\$0	-\$1,035.04	YES • See details in Sections K and L
Cash to Close	\$16,054.00	\$14,147.26	

Summary of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION	
K. Due from Borrower at Closing	\$189,762.30
L. Sale Price of Property	\$180,000.00
M. Sale Price of Any Personal Property Included in Sale	
N. Closing Costs Paid at Closing (J)	\$9,682.30
Adjustments	
Adjustments for Items Paid by Seller in Advance	
City/Town Taxes to	
County Taxes to	
Assessments to	
HOA Dues 10/15/16 to 10/31/16	\$80.00
L. Paid Already by or on Behalf of Borrower at Closing	\$175,615.04
Deposit	\$10,000.00
Loan Amount	\$162,000.00
Existing Loan(s) Assumed or Taken Subject to	
Seller Credit	\$2,500.00
Other Credits	
Rebate from The Great Title Company, USA	\$750.00
Adjustments	
Adjustments for Items Unpaid by Seller	
City/Town Taxes 1/5/16 to 10/15/16	\$365.04
County Taxes to	
Assessments to	
CALCULATION	
Total Due from Borrower at Closing (K)	\$189,762.30
Total Paid Already by or on Behalf of Borrower at Closing (L)	-\$175,615.04
Cash to Close ☒ From ☐ To Borrower	\$14,147.26

SELLER'S TRANSACTION

M. Due to Seller at Closing	\$180,080.00
01 Sale Price of Property	\$180,000.00
02 Sale Price of Any Personal Property Included in Sale	
03	
04	
05	
06	
07	
08	
Adjustments for Items Paid by Seller in Advance	
09 City/Town Taxes to	
10 County Taxes to	
11 Assessments to	
12 HOA Dues 10/15/16 to 10/31/16	\$80.00
13	
14	
15	
16	
N. Due from Seller at Closing	\$115,665.04
01 Excess Deposit	
02 Closing Costs Paid at Closing (J)	\$12,800.00
03 Existing Loan(s) Assumed or Taken Subject to	
04 Payoff of First Mortgage Loan	\$100,000.00
05 Payoff of Second Mortgage Loan	
06	
07	
08 Seller Credit	\$2,500.00
09	
10	
11	
12	
13	
Adjustments for Items Unpaid by Seller	
14 City/Town Taxes 1/5/16 to 10/15/16	\$365.04
15 County Taxes to	
16 Assessments to	
17	
18	
19	
CALCULATION	
Total Due to Seller at Closing (M)	\$180,080.00
Total Due from Seller at Closing (N)	-\$115,665.04
Cash ☐ From ☒ To Seller	\$64,414.96

CLOSING DISCLOSURE

FIGURE 16-3 (Continued)

Additional Information About This Loan

Loan Disclosures

Assumption
If you sell or transfer this property to another person, your lender
☐ will allow, under certain conditions, this person to assume this loan on the original terms.
☒ will not allow assumption of this loan on the original terms.

Demand Feature
Your loan
☐ has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.
☒ does not have a demand feature.

Late Payment
If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)
Under your loan terms, you
☐ are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
☐ may have monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
☒ do not have a negative amortization feature.

Partial Payments
Your lender
☒ may accept payments that are less than the full amount due (partial payments) and apply them to your loan.
☐ may hold them in a separate account until you pay the rest of the payment, and then apply the full payment to your loan.
☐ does not accept any partial payments.
If this loan is sold, your new lender may have a different policy.

Security Interest
You are granting a security interest in
777 Gadzooks Drive, Anytown, USA 00000
Lot 7 Block 11, Small Mountain Subdivision

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account
For now, your loan
☒ will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.

Escrow		
Escrowed Property Costs over Year 1	\$2,473.56	Estimated total amount over year 1 for your escrowed property costs: Homeowner's Insurance Property Taxes
Non-Escrowed Property Costs over Year 1	\$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: Homeowner's Association Dues You may have other property costs.
Initial Escrow Payment	\$412.25	A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Escrow Payment	\$206.13	The amount included in your total monthly payment.

☐ will not have an escrow account because ☐ you declined it ☐ your lender does not offer one. You must directly pay your property costs, such as taxes and homeowner's insurance. Contact your lender to ask if your loan can have an escrow account.

No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		

In the future,
Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.

Loan Calculations

Total of Payments. Total you will have paid after you make all payments of principal, interest, mortgage insurance, and loan costs, as scheduled.	\$285,803.36
Finance Charge. The dollar amount the loan will cost you.	\$118,830.27
Amount Financed. The loan amount available after paying your upfront finance charge.	\$162,000.00
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	4.174%
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.46%

Questions? If you have questions about the loan terms or costs on this form, use the contact information below. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/mortgage-closing

Other Disclosures

Appraisal

If the property was appraised for your loan, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- what is a default on the loan,
- situations in which your lender can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- ☒ state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and have to pay any debt remaining even after foreclosure. You may want to consult a lawyer for more information.
- ☐ state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
Name	ABC Mortgage Co		Omega Real Estate Broker Inc.	Alpha Real Estate Broker Co.	The Great Title Company, USA
Address	456 Front Street Anytown, USA 000000		789 Local Lane Sometown, ST 12345	987 Suburb Ct. Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
NMLS ID			Z765416	Z61456	Z61616
ST License ID			Samuel Green	Joseph Cain	Sarah Arnold
Contact	Joe Smith		P16415	P51461	PT1234
Contact NMLS ID	12345		sam@omegare.biz	joe@alphare.biz	Sarah@Greattitleco.com
Contact ST License ID			123-555-1717	321-555-7171	987-555-4321
Email	Joesmith@ABC Mortgage Co.com				
Phone	123-456-7890				

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Joe Bonarner 10/3/16

Applicant Signature

Date

Co-Applicant Signature

Date

PAGE 5 OF 5 - LOAN ID # 123456789

CLOSING DISCLOSURE

FIGURE 16-3 (Continued)

The HUD-1 settlement statement form was replaced by the Closing Disclosure form seen in Figure 16-3 for a fixed-rate mortgage. This new Closing Disclosure form went into effect on October 3, 2015.

Borrower's Right to Disclosure of Costs Prior to Closing

A borrower has the right under RESPA to request an inspection of the settlement statement one business day prior to closing. The form is completed by the person who will conduct the settlement procedures. If a buyer wishes to make such a request, it would be wise to do so several days prior to the closing date. Preparation of the information takes time, and a late request may simply force a delay in the closing date. The act does recognize that all costs may not be available one day prior to closing, but there is an obligation to show the borrower what is available, if requested. The variance rule governing the GFE in use in early 2011 would also be in effect. With the passage of the Mortgage Disclosure Improvement Act of 2008 (MDIA), the 3/7/3 Rule mandates a seven-business-day waiting period once the initial disclosure is provided before closing a home loan. Therefore, before a borrower can close on a transaction, he or she must have received the initial Loan Estimate statement disclosing the final annual percentage rate (APR) seven days prior to the scheduled closing.

Prohibited Practices

The vast majority of settlement procedures have always been conducted in an ethical manner by qualified professionals. However, abuses do occur occasionally, and it is one of the purposes of RESPA to expose unfair practices and make them illegal. Two such practices are described next.

Kickbacks

The law specifically prohibits any arrangement in which a fee is charged, or accepted, when no services have actually been performed—an arrangement known as a **kickback**. The prohibition does not prevent agents for the lender, attorneys, or others from actually performing a service in connection with the mortgage loan or settlement procedure. Nor does it prohibit cooperative brokerage arrangements such as are normally found in multiple listing services or referral arrangements between real estate agents and brokers. The target for the prohibition is the arrangement

wherein one party returns a part of the fee to obtain business from the referring party. The abuse involved here, of course, is that such an arrangement can result in a higher settlement fee for the consumer/borrower with no increase in the services rendered.

Title Companies

A seller is not permitted to require the use of a specified title insurance company as a condition of sale. The buyer has the right to compare the services and charges of competing title companies. In many states, the rates for title insurance fall under the regulatory authority of the state and are therefore uniform. In such cases, competition would be in the quality of services offered. Also, lenders retain the right to reject title insurance companies that do not meet their minimum requirements of financial strength.

TRUTH-IN-LENDING ACT

The **Truth-in-Lending Act (TILA)** is a federal law that became effective in July 1969 as a part of the Consumer Credit Protection Act. It is implemented by the Federal Reserve Board's Regulation Z. The purpose of the law is to require lenders to give meaningful information to borrowers on the cost of consumer credit, which includes credit extended in real estate transactions. The credit covered must involve a finance charge or be payable in more than four installments. Credit extended for business purposes, which includes dwelling units containing more than four families, is not covered by this law. No maximum or minimum interest rates or charges for credit are set by the law, whose purpose is primarily one of disclosure.

While TILA contains a limited right allowing the borrower to rescind or cancel the credit transaction, and covers in considerable detail all types of advertising to promote the extension of consumer credit, the principal features discussed here are the disclosure of the finance charge and the annual percentage rate (APR).

When dealing with a Truth-in-Lending disclosure now called the Loan Estimate that has replaced the TILA & GFE as the new integrated disclosure for a residential mortgage, creditors must re-disclose and make new disclosures if the annual percentage rate at consummation differs from the estimate originally disclosed by more than $\frac{1}{8}$ of one percentage point in regular transactions (a fixed-rate mortgage) or by more than $\frac{1}{4}$ of one percentage point in irregular transactions (an adjustable-rate mortgage), as defined in footnote 46 of § 226.22(a) (3). Should a re-disclosure be required, then the 3/7/3 waiting period is reset.

Where Are We Now?

The Federal Truth-in-Lending Act—Regulation Z

Details can be found by visiting the Consumer Financial Protection Bureau website at http://files.consumerfinance.gov/f/201311_cfpb_tila-narrative-exam-procedures.pdf.

Purpose

The purpose of this regulation is to promote the informed use of consumer credit by requiring disclosures about its terms and cost. The regulation also gives consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes. The regulation does not generally govern charges for consumer credit, except that several provisions in Subpart G set forth special rules addressing certain charges applicable to credit card accounts under an open-end (not home-secured) consumer credit plan.

The regulation requires a maximum interest rate to be stated in variable-rate contracts secured by the consumer's dwelling. It also imposes limitations on home equity plans that are subject to the requirements of § 226.5b and mortgages that are subject to the requirements of § 226.32. The regulation prohibits certain acts or practices in connection with credit secured by a consumer's principal dwelling. The regulation also limits certain practices of creditors who extend private education loans as defined in § 226.46(b) (5).

Coverage

In general, this regulation applies to each individual or business that offers or extends credit when four conditions are met:

- i. The credit is offered or extended to consumers;
- ii. The offering or extension of credit is done regularly;
- iii. The credit is subject to a finance charge or is payable by a written agreement in more than four installments; and
- iv. The credit is primarily for personal, family, or household purposes.

Finance Charge

The **finance charge** is the total of all costs that the consumer must pay for obtaining credit. These costs include interest, the loan fee, a loan-finder's fee, time-price differentials, discount points, and the cost of credit life insurance if it is a condition for granting credit. In a real estate transaction, purchase costs that would be paid regardless of whether or not credit is extended are not included in the finance charge, provided these charges are reasonable, bona fide, and not included to circumvent the law. Among these excluded purchase costs are legal fees, taxes not included in the cash price, recording fees, title insurance premiums, and credit report charges. However, such charges must be itemized and disclosed to the customer. In the case of first mortgages intended to purchase residential dwellings, the total dollar finance charge need not be stated, although the annual percentage rate must be disclosed.

Annual Percentage Rate (APR)

The **annual percentage rate** as determined under Regulation Z is not an "interest rate." Interest is one of the costs included in the finance charge. The APR is the relationship of the total finance charge to the total amount to be financed and must be computed to the nearest one-quarter percent.

Right of Rescission

It is worth noting that TILA provides that for certain transactions secured by a consumer's principal dwelling, the consumer has three business days after becoming obligated on the debt to rescind the transaction. The **right of rescission** allows the consumer time to reexamine the credit agreement and cost disclosures and to reconsider whether he or she wants to place his or her home at risk by offering it as security for the credit. Transactions exempt from the right of rescission include residential mortgage transactions, such as purchase money transactions under Section 226.2(a) (24), and refinancing or consolidations with the original creditor when no "new money" is advanced.

If a transaction is rescindable, a consumer must be given a notice explaining that the creditor has a security interest in the consumer's

home, that the consumer may rescind, how the consumer may rescind, the effects of rescission, and the date the rescission period expires.

To rescind a transaction, the consumer must notify the creditor in writing by midnight of the third business day after the latest of three events: (1) consummation of the transaction, (2) delivery of material TILA disclosures, or (3) receipt of the required notice of the right to rescind. For purposes of rescission, "business day" means every calendar day except Sundays and legal public holidays.

SETTLEMENT PRACTICES AND COSTS

As noted earlier in this chapter, settlement practices vary considerably in different sections of the country. There is no federal requirement to change any basic practices for residential loans except where it is necessary to add some disclosure procedures and to eliminate any prohibited practices. RESPA set limitations on the amount of reserve, or escrow, accounts that may be held by lenders, and there is one mandatory form to be used in the settlement of residential loans.

The mandatory uniform settlement statement for is illustrated in Figure 16-3 and will be used as the basis for the following discussion of the various services involved with a loan closing. While the emphasis is on residential loan practices, the procedures used in closing commercial loans involve most of the same services.

Settlement Statement

The design of the Closing Disclosure Form (F/K/A the **HUD-1 settlement statement**) places all the costs chargeable to the buyer, or the seller, on the first page, and a detailed accounting of these costs on the second page. The first section, A through I, contains information concerning the loan and the parties involved. Section J lists the amounts due from, or paid by, the borrower, and Section I details the same for the seller. The bottom line in each column indicates the cash due by the borrower/buyer on the left-hand side, and that due by the seller on the right-hand side. Whatever money must change hands is the result of the two figures. Section L on the second page of the form lists various settlement services that can be involved in a closing, with some blank lines for any separate entries not otherwise clearly identified.

This particular form must be completed for the settlement meeting by the person conducting the settlement procedures. A copy of the

completed form is either given to both the buyer and seller at the meeting or mailed as soon as practical after the meeting. If there is no actual meeting of the parties involved for settlement, the agent must still mail the completed forms after the closing has been finalized. This is the same form that a borrower has the right to inspect one business day prior to closing. It is not required that all information be filled in one day prior to closing, but the settlement agent must disclose whatever is available if requested to do so by the borrower.

A settlement costs worksheet is also available and is intended for use by the prospective borrower as a handy guide for making comparisons of the charges quoted by the various service providers.

The Closing Disclosure and Red Flags

Unfortunately, some borrowers, financing firms, or their employees may practice certain fraudulent practices to obtain a loan. The responsibility of any lender's quality control or compliance procedures should include someone independent of the loan originator and processing staff checking the following items to make sure that they do not raise concerns about the loan quality during the settlement process.

Common Closing Disclosure Form **red flags**:²

- Names and addresses of property seller and buyer vary from other loan documentation.
- Seller's mailing address is the same as another party to the transaction.
- Excessive real estate agent commissions paid, or real estate commission paid, but no real estate agents listed on the purchase contract.
- Sales price differs from sales contract.
- Reference is made to undisclosed secondary financing or double escrow.
- Rent prorated on owner-occupied transactions.
- Zero amount due to/from buyer.
- Closing Disclosure form or escrow instructions contain unusual credits, disbursements, related parties, delinquent loans paid off, or multiple mortgages paid off.

²Freddie Mac. "Fraud Mitigation Best Practices—Single Family." Freddie Mac bulletin, January 2015. Accessed Feb. 19, 2015 at http://www.freddiemac.com/singlefamily/pdf/fraudprevention_practices.pdf

- Payoffs for items not consistent with liens listed on title commitment.
- Excessive seller-paid marketing, administrative, assignment, or trust fees.
- Payouts to unknown parties.
- Terms of the closed mortgage differ from the terms approved by the underwriter.
- Date of settlement is delayed without explanation.

Most of these red flags point to the most common types of fraud in the loan origination process, as the following examples will show:

- **Appraisal Fraud** – This occurs when a home's value is deliberately or fraudulently overstated so that more cash can be obtained, or the value could be understated in order to get a lower price on a fore-closed home.
- **Employment Fraud** – When a borrower claims to be self-employed in a non-existent company or claims a better paying position in a real company in order to falsify his/her income for purposes of acquiring a mortgage.
- **Fraud for Profit** – Some of these are simple, while others can be complex, such as when the fraud involves multiple real estate professionals in an effort to deceive the lender of cash. Those that might be involved in arranging an undeserved mortgage may include an unethical appraiser, settlement agent, or loan originator who might all be working with a straw borrower.
- **Income Fraud** – For a time, firms allowed borrowers with highly over-collateralized proposed mortgages to not have their income verified. This caused a huge increase in this type of mortgage fraud which simply consists of the borrower overstating his or her income, allowing the borrower to qualify for a greater mortgage amount.
- **Gift Loan Fraud** – Frequently, individuals will borrow money from their family in order to make a down payment on a property. This allows the underwriter to treat this as a gift, and subsequently as a reduction in the amount of debt that the borrower appears to have, to gain the approval of a mortgage that the lender would otherwise deny.
- **Occupancy Fraud** – Borrowers often will use the claim of purchasing a home for their use as a primary residence when their true intent is to use it as an investment property. This is done because

lenders usually charge higher interest rates for investment property mortgages and demand lower LTV's, as investment real estate is considered higher risk.

Lenders can also use inappropriate products for potential borrowers, including many that became prohibited after the passage of the Dodd-Frank Act as well as other legislation since the financial crisis of 2007-2012. For a review of red flags or prohibited practices now considered as predatory or no longer allowed, see the listing in the Appendix of this text.

Sales/Broker's Commission (Item 700)

The sales commission is usually paid by the seller and is listed on the settlement in the total dollar amount, then divided between participating brokers as the sales agreement may provide. The amount is negotiable and may be a flat fee for the sale or a percentage of the sales amount.

Items Payable in Connection with Loan (Item 800)

As identified by RESPA, the costs of the loan are the fees charged by the lenders to process, approve, and make the mortgage loan.

Loan Origination Fee (801) — This is the fee charged by the primary lender to assemble information necessary to evaluate a loan application, to determine its acceptability, and to prepare the completed loan package. The charge is negotiable and varies from 1% to 1.5% of the loan amount. (The stated amount should match pre-October 2015 GFE Box #1 or the new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section A – Origination Charges.")

Loan Discount (802) — The loan discount is not truly a fee, in that it is not considered payment for services rendered. Rather, it is another cost of borrowed money similar to interest. The discount is expressed as a percentage of the loan amount, normally measured in *points*; one point is 1% of the loan amount. The purpose of a discount is to adjust the yield on a fixed interest rate certificate to a level of return that is commensurate with the current market rate for money loaned. By charging a discount for a loan, the lender increases the return, or yield. Six to eight points of discount give the lender about the same return on a loan as increasing the interest rate by 1%. The value of the discount depends on the rate of interest: the higher the market rate, the greater

the value of a point of discount. As a cost of borrowed money paid at the time of loan settlement, a loan discount becomes one of the items payable for obtaining a loan. (The stated amount should match pre-October 2015 GFE Box #2 or new TILA-RESPA Integrated Disclosure form section entitled “Loan Costs Section A - Origination Charges.”)

Appraisal Fee (804) — An appraisal of the property is necessary to establish the value basis for a mortgage loan. Depending on the size of the loan, regulated lenders may be required to use a state-certified appraiser. Otherwise, a qualified member of the lender’s staff or an independent fee appraiser may be used to provide factual data on the value of the property offered as loan collateral. Since an appraisal is of value to both the buyer and seller of property, it may be paid for by either. Often, the cost of an appraisal is included as part of the initial application fee. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled “Loan Costs Section B – Services You Cannot Shop For.”)

Credit Report Fee (805) — Applicants for mortgage loans are required to submit **credit reports**, usually from both a local credit bureau and a national repository of credit data. The information is normally obtained by the loan processor from local credit bureaus (a sample credit report can be viewed in the appendices of this text). This report is a necessary verification of information submitted in the loan application plus statistical data on the bill-paying record of the applicant. A credit report is one source of information that a lender uses to determine if the applicant is an acceptable credit risk. Payment for the report is most often made by the borrower. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled “Loan Costs Section B – Services You Cannot Shop For.”)

Lender’s Inspection Fee (808) — The lender is permitted to assess a charge for an inspection of the property offered as collateral. The inspection can be made by the lender’s personnel or by an independent inspector. The purpose is to examine the physical facilities and any mechanical equipment and possibly to report on environmental problems. This inspection is not to be confused with pest inspections, which we will discuss later. It is used primarily on construction loans. (The stated amount should match pre-October 2015 GFE Box #3 or

new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section B – Services You Cannot Shop For.")

Mortgage Insurance Application Fee (809) — Private mortgage insurance companies charge fees for the processing of a loan application. This fee sometimes covers both an appraisal fee and an application fee. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section B – Services You Cannot Shop For.")

Assumption Fee (810) — An assumption fee is essentially a paper-processing fee charged in transactions in which the buyer takes title to the property and assumes liability for payments on a prior obligation of the seller. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section B – Services You Cannot Shop For.")

Document Preparation (811) — The charge for preparing legal documents may be listed separately or may be included with other service fees, most likely as a part of the attorney's fee. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section B – Services You Cannot Shop For.")

Notary Fee (812) — Instruments that are to be recorded in the public records usually require that all signatures be acknowledged by a notary public or properly witnessed. Settlement agents are often licensed for this purpose and may ask a separate charge for their official services. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section B – Services You Cannot Shop For.")

Attorney's Fees (813) — Few lenders will permit a loan to be closed without the assurance of a qualified attorney that all instruments have been properly prepared and executed. In any real estate transaction, the buyer and the seller may each be represented by their own attorney and, in such a case, each may pay the attorney outside the closing procedure. In the handling of residential loans, the title company or settlement agent involved may employ an attorney to handle the legal requirements and, if both parties agree, the charges are allocated equally between buyer and seller. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section B – Services You Cannot Shop For.")

Items Required by Lender to Be Paid in Advance (Item 900)

There are certain items that must be prepaid in advance at the closing of a loan, as follows.

Interest (901) — Since mortgage loans extend for long terms, it is a common practice to adjust the monthly payment to a convenient date each month, most often the first of each month. The normal monthly payment on a mortgage loan includes a charge for interest paid at the end of the month—that is, after the borrower has had the use of the money loaned. So, to adjust the monthly payment to a date other than that of loan closing, the interest charge is computed for the time period from the date of closing to the beginning of the period covered by the first monthly payment. For example, if the settlement takes place on June 16, a prepayment of charges is needed through June 30. The period covered by the regular monthly payment begins on July 1, and the first regular payment is due on August 1. (The stated amount should match pre-October 2015 GFE Box #10 or new TILA-RESPA Integrated Disclosure form section entitled “Other Costs Section F – Prepays.”)

Example

Compute the interest charges for 15 days (June 16 through June 30) on a \$45,000 loan at 10% interest, as follows:

$\$45,000 \times .10$	$= \$4,500$ (annual interest cost)
$\$4,500 \div 360$	$= \$12.50$ (daily interest cost)
$\$12.50 \times 15 \text{ days}$	$= \$187.50$ (prepaid interest due)

The prepaid interest amount of \$187.50 would be due at closing and the full monthly payment on a 30-year loan amounting to \$394.91 would begin on August 1.

Mortgage Insurance Premium (902) — Almost all lenders now require private mortgage insurance on loans in excess of 80% of the property value. And the FHA has its annual mortgage insurance premium payable as a part of each monthly payment. The protection for

the lender is against a borrower default in the payment of the loan. It enables a lender to make higher ratio loans (up to 95% for a conventional loan) than would otherwise be possible, and thus allows lower down payments for the borrower. The first premium charge for a conventional loan is always higher than the continuing annual payments, as it includes an issuing fee and is payable in full at the loan closing. This type of mortgage insurance should not be confused with mortgage life, credit life, or disability insurance, all of which are designed to pay off a mortgage in the event of the physical disability or death of the borrower. None of these types of insurance are a standard requirement for a mortgage loan. (The stated amount should match pre-October 2015 GFE Box #3 or new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section F – Prepaids.")

Hazard Insurance Premium (903) — Hazard insurance protects both the lender and the borrower against loss to a building by fire, wind-storm, or other natural hazard. Such coverage is a requirement for mortgage loans that include any buildings as part of the collateral. In addition, loans in certain areas of the country with development land in designated flood plain zones require flood insurance. It is customary to name the lender as a loss payee in addition to the homeowner.

The normal lender requirement is for insurance coverage in an amount not less than the loan amount. This standard does not necessarily recognize coinsurance clauses found in most states' insurance codes. Coinsurance requirements set a minimum insurance coverage amount (usually 80% of the building value at the time of loss) to assure the property owner full recovery of partial losses. So while the lender may set a minimum requirement to cover the loan amount, on a low-ratio loan the coverage could be insufficient to fully protect the property owner.

Most lenders require a full first year's premium of hazard insurance paid at the time of closing. Often, the paid-up policy is delivered at the closing table as proof of insurance. In addition to the first year's premium, lenders may require a reserve of up to two months' worth of annual premiums deposited with them at closing. (The stated amount should match pre-October 2015 GFE Box #11 or new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section F – Prepaids.")

Reserves Deposited with Lenders (Item 1000)

Almost all residential loans require cash deposited with the lender at the time of loan closing to be used for future payment of recurring annual charges such as taxes, insurance, and maintenance assessments. The identification of these accounts differs, as they may be referred to as **reserves**, escrow accounts, impound accounts, or reserve accruals. The purpose of the initial deposits is to assure the lender enough cash to make the first annual payment that comes due after the closing date. Because real estate practices differ throughout the country, RESPA allows some variations in how deposits are handled. In some parts of the country, taxes are paid a year in advance; in others, they are paid at the end of the tax year. The same is true of maintenance assessments.

Initial Deposit for the Escrow Account (1001)

RESPA places a limit on the deposits that may be required to meet the first year's payments on residential loans. The amount cannot exceed a sum sufficient to pay taxes, insurance premiums, or other charges that would have been paid under normal lending practices up to the due date of the first full monthly installment payment. In addition, the lender is permitted to require a cushion of up to one-sixth of the annual charges for the escrowed expenses. Then, each monthly installment payment can include one-twelfth of the annual charges on a continuing basis. RESPA rules restrict the lender to collecting no more than one-twelfth of the annual taxes and other charges each month, unless a larger payment is necessary to make up a deficit in the reserve account. A deficit in the account may be caused, for example, by increases in the taxes and insurance premiums during the loan payment year. (The stated amount should match pre-October 2015 GFE Box #9 or new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section G – Initial Escrow Payment at Closing.")

Hazard Insurance (1002) — Most home buyers elect to purchase new insurance policies to fit their own needs. To do this, the normal lender requirement, approved as being in compliance with RESPA restrictions, is for a one-year premium paid in advance, plus a deposit to a reserve account in an amount not exceeding two months' worth of the annual premium. A buyer may purchase hazard insurance from whatever company he or she chooses, so long as the company

meets the lender's minimum standards for financial responsibility. If the buyer opts to continue an existing insurance policy, an adjustment would be necessary to reimburse the seller for any portion of the premium not used by date of closing plus a reimbursement of the two-month premium cushion. (The stated amount should match pre-October 2015 GFE Box #9 or new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section G – Initial Escrow Payment at Closing.")

Mortgage Insurance (1003) – The premium reserve requirement for mortgage insurance is negotiable with the lender. It may be required that a part of the total annual premium be placed in a reserve account, but no more than one-sixth of the annual premium may be held as a cushion by the lender. (The stated amount should match pre-October 2015 GFE Box #9 or new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section G – Initial Escrow Payment at Closing.")

City/County Property Taxes (1004–1005) – A reserve is required so as to have sufficient cash on hand to make timely payment of property taxes when they come due. The reserve is determined by the time between the date of closing a transaction and the date the next payment of taxes becomes due. An example of this calculation follows. (The stated amount should match pre-October 2015 GFE Box #9 or new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section G – Initial Escrow Payment at Closing.")

Example

Initial Tax Reserve Requirement for a Settlement Date of June 30

First monthly payment due August 1

Taxes for prior calendar year due December 1

Annual taxes: \$900 (\$75 each month)

Initial reserve from previous December 1 to July 30

8 months $\times$ \$75 = \$600

Plus 2 months cushion: 2 months $\times$ \$75 = \$150

Escrow deposit required at closing = \$750

In considering this example, keep in mind that taxes due for the months prior to actual closing are the financial responsibility of the seller. This would mean that seven of the eight months' requirement, amounting to \$525, would be paid by the seller. One month's worth (from June 30 to July 31) plus the two-month cushion, amounting to \$225, is the responsibility of the buyer. So the settlement statement would reflect the proration of the tax liability.

If the house is newly constructed, the tax assessment during the construction period would most likely be a lesser amount than that for the finished house. In areas where taxes are paid at the beginning of each tax year, the deposit requirement to meet the coming year's taxes would fall to the buyer. One of the most common errors made in loan closings is failing to calculate the real estate taxes that must be escrowed to assure that taxes can be paid from the account by the time the next tax remittance is due. Often lenders and closers reduce loan amounts by prorated amounts collected from sellers instead of making sure this is addressed in closing. In high real estate tax states like California, New York and Texas, borrowers may experience hardship if payments must be adjusted upward to pay for not only the shortage advanced by the lender, but on some occasions sales involving a senior citizen seller with a real estate tax exemption. This makes taxes due for the new owner considerably higher. Some borrowers' payments double to make up for under-withholding for the initial escrow alongside having to pay back lender advances on their behalf, but also for the increased tax due, as the new owner does not qualify for over age 65 tax reductions.

Annual Assessments (1006) — The reserve that may be required for assessments covers such charges as a homeowners' association fee, a condominium maintenance charge, or a municipal improvement assessment. The same previously described RESPA reserve limitations apply to all forms of reserves. (The stated amount should match pre-October 2015 GFE Box #9 or new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section G – Initial Escrow Payment at Closing.")

Title Charges (Item 1100)

In the uniform settlement statement, the term *title charges* designates a variety of services performed to conclude a real estate transaction properly. These include searching records, preparing documents, and

acquiring insurance against title failure. While practices and terminology differ in some areas, the services referenced are basically the same.

Title Services and Lender's Title Insurance (1101)

Line 1101 is for title services and lender's title insurance. This is the sum of all 1100 charges less the owner's premium and endorsements and attorney representation for the borrower. Line 1101 refers the borrower to Box #4 of their GFE. This line item includes all administrative and processing charges related to title insurance (for example, search and exam fees). This line item does not include premium charges for any owner's title insurance that will be provided; it does include the charge for lender's title insurance (including the charge for any lender-only endorsements). It also includes settlement charges under the heading of "Title Services." (The stated amount should match pre-October 2015 GFE Box #4 or new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section C – Services You Can Shop For.")

Settlement or Closing Fee (1102) – These are the charges made by the person or company for the service of handling the settlement procedures. Payment of the fee is negotiable between buyer and seller and is often divided equally between them. (The stated amount should match pre-October 2015 GFE Box #4 or new TILA-RESPA Integrated Disclosure form section entitled "Loan Costs Section C – Services You Can Shop For.")

Abstract or Title Search, Title Examination, Title Insurance Binder (1103) – In a real estate transaction, it is reasonable to expect a seller to offer some solid proof of his or her right to convey the property with good title to the buyer. This proof can be obtained through a search of all the recorded documents affecting the land title (an abstract of title). In some cases, an attorney will review the abstract and issue a title opinion. Buyers can accept the opinion if it proves good title and proceed with the transaction, although such an opinion provides no insurance against future adverse claims. More commonly, proof of title is handled through a title insurance company, which continuously searches the records and, if justified, insures the title against adverse claims for a specified period of time.

In some areas of the country, the obligation to prove that good title is being conveyed places the cost burden on the seller. However, in other areas the fact that title insurance protects the buyer against

future claims indicates the cost should be borne by the buyer. A *title insurance binder* is a preliminary assurance by a title company that the title is valid and that a title insurance policy will be issued at a later date. (The stated amount should match pre-October 2015 GFE Box #4 or new TILA-RESPA Integrated Disclosure form section entitled “Loan Costs Section C – Services You Can Shop For.”)

Lender’s Title Policy (1104) – The lender’s policy runs with the mortgage. Its value declines as the mortgage is paid down and it transfers to whomever holds the mortgage note. Furthermore, a payoff of the loan automatically cancels the lender’s insurance coverage. The lender’s title policy is paid for as a single premium at closing. In many areas, it is issued simultaneously with an owner’s policy, since the same basic risk is covered. Local practice varies as to whether the lender’s or the owner’s policy must pay the major share of premium cost. If the lender’s policy carries the major cost, the owner’s policy is usually issued for a nominal amount. Payment for a lender’s policy is most likely to be made by the buyer, as it is clearly part of the cost of obtaining a loan. (The stated amount should match pre-October 2015 GFE Box #4 or new TILA-RESPA Integrated Disclosure form section entitled “Loan Costs Section C – Services You Can Shop For.”)

Title Insurance (1106) – **Title insurance** offers protection to the policyholder/landowner against adverse claims to ownership rights. Contrary to popular belief, it is not a guarantee of title, but instead offers a legal defense should an adverse claim arise. If title does prove defective, a prior owner may assert ownership, and the policyholder may recover the value of the insurance coverage.

In most states, title insurance is classed as another type of insurance and falls under the regulatory authority of the state’s insurance commission. Premiums can be set uniformly by the state, limiting competition to the kind of service that different companies may offer. Title insurance is available in two separate types: (1) an owner’s policy, which protects the landowner, and (2) a mortgagee’s policy, which protects the lender. (In new TILA-RESPA Integrated Disclosure form section entitled “Other Costs Section H – Other.”)

Owner’s Title Insurance (1106) – An owner’s policy protects against adverse claims up to a specified amount and for a given number of years, usually 20 or 25 years. It cannot be transferred to another owner. The owner’s policy is purchased at closing with a one-time premium

charge. The time period for title insurance coverage is determined by each state's limitation statutes. Even though an owner may hold actual title to property for only a short period, say a year or so, liability may continue after disposition of the property because the warranty deed normally used to convey title leaves the seller with responsibility. The deed states that the seller "will warrant and defend generally the title to the property against all claims and demands." Thus the owner's title policy protects the owner not only while he or she is in possession of the insured premises, but also for the time period after it is sold, as the seller is still liable for possible adverse claims.

Customs vary regionally as to whether or not the buyer or seller pays for owner's title insurance. Since the issuance of such a policy represents good proof of the validity of the seller's title to the land to be conveyed, in some areas the cost is paid by the seller. In other areas, if the seller can prove good title to the property through an attorney's opinion based on the abstract of title or by the issuance of a title binder by a title company, then payment for the attorney's opinion or for the owner's policy falls to the buyer as the party who carries the future benefit. (In new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section H – Other.")

Government Recording and Transfer Charges (Item 1200)

Recording fees and transfer fees are those charged by city, county, or state governments for recording services, or as a tax on the transaction. The fees may be based on the amount of the mortgage loan or on the value of the property being transferred. Payment of these charges is negotiable between buyer and seller, but they are usually paid by the buyer. (In new TILA-RESPA Integrated Disclosure form section entitled "Other Costs Section E – Taxes and other Government Fees.")

Additional Settlement Charges (Item 1300)

Charges that are not easily classified within previous categories of costs appear in this section. Mostly, they include costs of a survey and inspections that may be required to determine adequacy of the structure and its equipment.

Survey (1301) — Almost all lenders require that a survey of the property offered as collateral be included in the loan package. An acceptable survey, which can only be prepared by a registered

surveyor, gives a description of the land with an outline of its perimeter boundaries. It should show the precise location of buildings as well as any easements or rights-of-way that may cross the land. The survey can disclose any encroachments on the land that may create a cloud on the ownership rights. It is not unusual for an attorney to require a survey before preparing a deed or mortgage instrument to make sure of the land and the rights being conveyed. Payment for the survey is negotiable; the seller has an obligation to prove exactly what land is to be conveyed, while the buyer needs the survey to complete the loan requirements. (In new TILA-RESPA Integrated Disclosure form section entitled “Loan Costs Section C – Services You Can Shop For.”)

Pest and Other Inspections (1302) — In certain areas of the country where termites or other insects infest buildings and can create damage, it is normal to require a separate pest inspection. In such areas, sales agreements may call for the property to be delivered free of infestation. The pest inspection—plus treatment if necessary, along with a certified letter of proof of treatment—is the seller’s method of fulfilling this requirement. Even though buyer and seller do not address this question, the lender may require a pest inspection to assure that property offered as collateral is free of pest-caused structural damage. In such a case, the cost may be paid by the buyer as part of the requirements for obtaining a mortgage loan. (In new TILA-RESPA Integrated Disclosure form section entitled “Loan Costs Section C – Services You Can Shop For.”)

Total Settlement Charges (Item 1400)

At the bottom of the page listing the various settlement charges, the totals for the borrower’s and seller’s charges are listed and transferred to the summary section of the first page.

FINAL CLOSING INSTRUCTIONS

How the proceeds of a loan are disbursed is of prime importance to the lender. General instructions are often kept on file with closing agents by major lenders to expedite handling. Another kind of instruction preparatory to closing is normally provided by the agents representing the principals in the transaction. We will consider these instructions below.

Mortgagee's Closing Instructions

Once a loan has been approved, the mortgage company prepares a sheet of instructions for delivery to the settlement agent handling closing procedures. The **closing instructions** shown in Figure 16-4 detail such items as the correct legal name for the mortgage instruments, the name of the trustee if a deed of trust is involved, and the terms of the mortgage note. Any special requirements to be included in the mortgage or deed of trust (that is, if the mortgage company is not submitting its own forms, or standardized documents, for a note and mortgage) are itemized. The lender will ask that specific instructions on monthly payments be given to the borrower, along with details of the escrow requirements and details of **disbursement procedures**. Along with the instructions, the mortgage company will send the buyer and seller affidavits as may be required, which certify the actual down payment (cash and/or property exchanged) and the use of the loan proceeds, which must be acknowledged by the notarized signatures of all buyers and sellers. Also, a truth-in-lending statement is prepared for the purchaser/borrower's signature at closing. Some mortgage companies require certifications of occupancy for purposes of homestead information. The instruments may vary between companies according to how their legal counselors interpret state laws.

The instructions of a mortgage company invariably call for a certain amount of work on the part of the settlement agent closing the loan, if only as a means of clarifying the loan requirements. This is in addition to other details of closing that a settlement agent must handle, such as assembling the title information, preparing or reviewing the note and mortgage, verifying tax requirements, and determining the insurance payments needed.

It is advisable to allow the settlement agent a reasonable amount of time for his/her work in preparing for a closing. A forced deadline can induce errors and omissions. Figure 16-4 gives an example of typical mortgagee's closing instructions.

Setting the Closing

When the mortgage company has approved the loan and prepared its closing instructions, it is usually the responsibility of the real estate agent, or agents, involved to arrange a mutually agreeable closing time.

SPECIFIC CLOSING INSTRUCTIONS

Specific Closing Instructions v.2.2

These Specific Closing Instructions are to be read in conjunction with the General Closing Instructions, which are incorporated by reference and may be found at www.mbaa.org/gci.htm. If any provisions in these Specific Closing Instructions conflict with the provisions in the General Closing Instructions, the Specific Closing Instructions shall control.

FILE/CASE NUMBER:

DATE & TIME:

SETTLEMENT AGENT CONTACT INFORMATION

Settlement Agent Name:

Phone Number:

Company Name:

Fax Number:

Mailing Address:

Email:

LENDER CONTACT INFORMATION

Instructions: If settlement is not completed within ___ hours after receipt of funds, Settlement Agent must notify the Lender's Contact Person immediately and return Lender's funds and Closing Documents to Lender immediately unless otherwise indicated.

Contact Name:

Phone Number:

Lender Name:

Fax Number:

Mailing Address:

Email:

MORTGAGE BROKER CONTACT INFORMATION

Contact Name:

Phone Number:

Mortgage Broker Name:

Fax Number:

Mailing Address:

Email:

BORROWER INFORMATION

Borrower Name:

Phone Number:

Borrower Type:

Fax Number:

Mailing Address:

Email:

Power of Attorney Information:

Borrower Name:

Phone Number:

Borrower Type:

Fax Number:

Mailing Address:

Email:

Power of Attorney Information:

SELLER INFORMATION

Seller Name:

Phone Number:

Mailing Address:

Fax Number:

Email:

PROPERTY INFORMATION

Property Address:

Property County:

Property Type:

Sales Price:

Down Payment:

Appraised Value:

LTV:

FIGURE 16-4 Mortgagee's Closing InstructionsSource: www.mbaa.org/gci.htm

SPECIFIC CLOSING INSTRUCTIONS

Specific Closing Instructions v.2.2

These Specific Closing Instructions are to be read in conjunction with the General Closing Instructions, which are incorporated by reference and may be found at www.mbaa.org/gci.htm. If any provisions in these Specific Closing Instructions conflict with the provisions in the General Closing Instructions, the Specific Closing Instructions shall control.

FILE/CASE NUMBER:

DATE & TIME:

SETTLEMENT AGENT CONTACT INFORMATION

Settlement Agent Name:

Phone Number:

Company Name:

Fax Number:

Mailing Address:

Email:

LENDER CONTACT INFORMATION

Instructions: If settlement is not completed within ___ hours after receipt of funds, Settlement Agent must notify the Lender's Contact Person immediately and return Lender's funds and Closing Documents to Lender immediately unless otherwise indicated.

Contact Name:

Phone Number:

Lender Name:

Fax Number:

Mailing Address:

Email:

MORTGAGE BROKER CONTACT INFORMATION

Contact Name:

Phone Number:

Mortgage Broker Name:

Fax Number:

Mailing Address:

Email:

BORROWER INFORMATION

Borrower Name:

Phone Number:

Borrower Type:

Fax Number:

Mailing Address:

Email:

Power of Attorney Information:

Borrower Name:

Phone Number:

Borrower Type:

Fax Number:

Mailing Address:

Email:

Power of Attorney Information:

SELLER INFORMATION

Seller Name:

Phone Number:

Mailing Address:

Fax Number:

Email:

PROPERTY INFORMATION

Property Address:

Property County:

Property Type:

Sales Price:

Down Payment:

Appraised Value:

LTV:

FIGURE 16-4 Mortgagee's Closing InstructionsSource: www.mbaa.org/gci.htm

Specific Closing Instructions v.2.2

CLOSING DOCUMENT INFORMATION

Closing Document Expiration Date:

Interest Rate Expiration Date:

Other Document Specific Information:

LOAN INFORMATION

Closing Date:

Loan Purpose:

Vesting to Read:

Loan Number:

Loan Type:

APR:

First Payment Date:

Index:

Lifetime Rate Cap:

MERS Number:

Anticipated Disbursement Date:

Initial Payment Amount:

Last Payment Date:

Margin:

Lifetime Rate Floor:

Loan Amount:

Funding/Settlement Date:

Term/Amortization:

Maturity Date:

Interest Change Date:

Periodic Rate Cap:

REQUIRED DOCUMENTATION

Instructions: The following documents are necessary to complete the above-referenced loan transaction. Within [] hours after settlement, Settlement Agent must return to Lender the following documents, other than those to be presented for recording. [Settlement Agent must [use the enclosed envelope or label provided, and] send package to Lender by: [Regular Mail/Overnight/Expedite Delivery [If Lender is to pay for overnight delivery bill to [Carrier][Account Number]]]. Settlement Agent must submit for recording, immediately upon obtaining signatures and receiving funds, the original Mortgage/Deed of Trust, Riders and/or Assignments.

Deed of Trust
Legal Exhibit A
Hazard Insurance Requirements
4506

Borrower's Certification
Initial Escrow Acct. Disc.
Statement
Notice of Right to Cancel

Credit Agreement
Fair Lending Notice
Patriot Act

This list should be populated based on the loan package. Additional information may appear such as an annotation of who signs which document and references to the General Closing Instructions may be added, ex. Instructions for Notice of Right to Cancel.

Overflow to appear on Attachment

TITLE INSURANCE

Instructions: Settlement Agent shall not disburse Lender's funds until the following conditions are met:
1) Mortgagee's title insurance policy must insure that Lender's security instrument constitutes a valid [1st/2nd] lien on the borrower's estate or interest identified in the title insurance commitment, title report or binder, dated [date], subject to the following exceptions:

- 2) The following endorsements must be incorporated into the final title insurance policy:
- 3) Insured Lender must appear as: [Insured Lender]
- 4) Secondary Financing in the amount of [amount] has been approved:
- 5) Title Policy Coverage Amount:
- 6) Survey Required: [Yes/No]
- 7) Other Conditions:

HAZARD INSURANCE

Loss payee/mortgagee clause to read:

Flood:
Hazard:
Other:

Deductible:
Deductible:
Deductible:

[illegible]

B = Borrower, R = Broker, L = Lender, I = Investor, S = Service Provider, T = Title Company, O = Other
D = Deducted from Wire

FIGURE 16-4 (Continued)

Specific Closing Instructions v.2.2

LOAN FEES, CHARGES, RESERVES & PAYOFFS

Instructions: The final HUD Settlement Statement must be completed at settlement and must accurately reflect all receipts and disbursements indicated in these closing instructions and any amended closing instructions subsequent hereto. If any changes to fees occur, Settlement Agent may not fund loan without Lender's prior written approval. Fax a certified copy of the final HUD-1 Settlement Statement to [], Attention: [].

This is a REPEAT OF PAGE 3 with SAMPLE DATA --organized by fee type rather than line number -- from copy of HUD

HUD #	Fee/Charge	POC	POC By	Bal. Due	Paid By	Paid To
	Lender Fees					
	Loan Origination Fee			\$605.00	B	L
	Loan Discount 1 %			\$720.00	S	L
	Document Prep Fee			\$150.00	S	L
	Total			\$1,475.00		
	Broker Fees					
	Yield Spread Premium - 1.625%	\$1,170.00	L			
	Automated Underwriting			\$45.00	B	R
	Total			\$45.00		
	Service Provider Fees					
	Credit Report Fee to Credit Report Service			\$9.50	B	S
	Credit Report Fee to Credit Report Service			\$25.00	R	S
	Credit Report Fee to Quick Courier			\$40.00	B	S
	Total			\$74.50		
	Items Required By Lender To Be Paid In Advance					
	Interest from 12/25/11 to 01/01/12 @ \$13.06851/day			\$91.48	B	L
	Hazard Insurance to Good Insurance Co.			\$580.00	B	L
	Total			\$671.48		
	Reserves Deposited with Lender					
	Hazard Insurance 3 months @ \$48.33 per month			\$144.99	B	L
	County Property - Taxes 4 mos. @ \$101.77 per			\$407.08	B	L
	Aggregate Adjustment			\$48.33	B	L
	Total			\$503.74		
	Title Charges					
	Settlement or Closing fee to Jane's Title Company			\$255.00	S	T
	Title Search			\$140.00	S	T
	Title Insurance			\$600.00	B	T
	Total			\$995.00		
	Government Recording and Transfer Charges					
	Recording Fees - Harris County			\$86.00	B	O
	State Tax Stamps			\$56.35	B	O
	Total			\$142.35		
	Payoffs					
	Lien Payoff #1			\$1,777.77	S	O
	Lien Payoff #2			\$585.00	S	O
	Total			\$2,362.77		

B = Borrower, R = Broker, L = Lender, I = Investor, S = Service Provider, T = Title Company, O = Other
 D = Deducted from Wire

FIGURE 16-4 (Continued)

CONDITIONS TO BE SATISFIED PRIOR TO DISBURSEMENT OF LOAN PROCEEDS

Settlement Agent must obtain satisfactory evidence that all taxes are paid through settlement or Settlement Agent must otherwise notify Lender of procedures to assure timely payment. [Lender is to be at no expense in this transaction.]

Additional Funding Instructions:

Attachments: The following documents are attached:

- ___ Attachment to Specific Closing Instructions (Overflow Page)
- ___ Construction Addendum (outside scope of closing instruction project)
- ___ Government Loan Addendum (outside scope of closing instruction project)
- ___ Texas Loan Addendum (outside scope of closing instruction project)

FIGURE 16-4 (Continued)

Practices vary in different parts of the country: in some areas all parties meet for the settlement procedures; in other parts, no actual meeting is required, and escrow agents are authorized to request that the necessary instruments be delivered to them for release after all escrow requirements have been met.

Whenever the local practices require a meeting of the parties involved, it is usually held in the offices of the company or person designated to handle the settlement procedures. This may be a title company, an attorney, a real estate agent, an escrow agent, or the lender itself. Whoever handles the loan closing must have the approval of the lender, as it is the lender's money that is generally most involved.

Closings can be accomplished with separate meetings—the buyer at one time and the seller at another—leaving the settlement agent to escrow the instruments and consideration until the procedure is completed and distribution can be made. It is easier for the agents involved, and provides greater clarity for both buyer and seller, to arrange for a single meeting. Although a closing is no place for negotiations, if a misunderstanding crops up, it can be more readily resolved if all parties are immediately available for decision making.

DISBURSEMENT OF FUNDS

In many parts of the country, a closing is just that. Instruments are signed and funds are disbursed before anyone leaves the closing table. In some areas, it is more common to execute and acknowledge the instruments at the closing but delay disbursement of funds until later. The purpose for any delay in releasing funds is twofold. First, it gives the lender an opportunity to make a second review of all instruments and to verify proper signatures and acknowledgments; second, it allows the settlement agent time to clear any checks that may have been submitted by the parties involved before releasing its own disbursement checks. Because any delay in the delivery of executed documents and funds can create problems, there is growing pressure not to call for the parties to meet until all loose ends have been resolved and good money is available for distribution at the closing table.

The actual disbursement of funds at or following the settlement procedures is usually made to several different individuals and companies. One of the reasons an escrow agent is employed in the closing process is to make sure that all parties with claims in the settlement are paid. Commercial banks use the Federal Reserve Fed Wire system to electronically submit good funds for loan payoffs and other closing costs. The mortgage lender wants to be certain that taxes are paid, that the insurance coverage is in force and has been paid for, and that no subsequent claims can be filed that might cloud its right to a valid lien securing the loan. Sales agents, inspectors, attorneys, and service agents all normally expect to receive their fees from the closing agent. After all required payments have been made, the necessary instruments are filed in the county records, the balance due to the seller is disbursed, and the transaction is considered closed.