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Clearer mortgage documents make shopping easier

Good faith estimate and HUD-1 forms get more consumer friendly

By **Amy Hoak**, MarketWatch

CHICAGO (MarketWatch) -- Shopping for a mortgage got easier this year with new, simple-to-understand good-faith estimate forms that all lenders are now required to use -- making it less of a hassle for consumers to compare loan costs.

Closing agents are also required to provide borrowers with a new settlement statement that clearly compares borrowers' final and estimated costs when they're at the closing table, according to the U.S. Department of Housing and Urban Development.



The mandatory use of both disclosures, added under the Real Estate Settlement Procedures Act, went into effect Jan. 1.

The new documentation is aimed at helping consumers fully understand the terms of a mortgage. The standardized good-faith estimate allows them to more easily compare loans offered between lenders, and reminds consumers that they can comparison shop for a variety of required closing services instead of accepting the lender's suggestions.

More foreclosure trouble ahead

The foreclosure crisis is far from over, according to RealtyTrac's Rick Sharga. The company will release its year-end report on Thursday showing foreclosures rose 20% over the previous year. He talks with Dawn Wotapka about some trouble spots and the outlook for 2010.

The new good-faith estimate document is a good start in educating consumers about their loan, and answers "the simplest of questions: Can anyone tell me what this loan costs?" says Keith Gumbinger, vice president of Pompton Plains, N.J.-based HSH Associates, a publisher of consumer loan information.

Moreover, the improvement of mortgage disclosures and the promotion of comparison shopping could help save consumers an average of \$700 in mortgage costs, HUD estimates.

"The ability for a consumer to compare is much easier because of the way the information is laid out," in "common, everyday language," says Timothy Dwyer, president and CEO of Entitle Direct Group, a Stamford, Conn.-based title insurance company. "They have the ability to understand and shop."

The standardized forms are a shift from the multitude of varied documents lenders provided in the past -- which could range from a single page with hand-scrawled numbers by one lender to typed pages of costs by another lender, Gumbinger says.

The good-faith estimate

The standardized good-faith estimate ultimately gives consumers an estimate of their settlement charges and loan terms, assuming they are approved for that loan.

[View a copy of the new good faith estimate document.](#)

The first page states how long the information is valid for, along with a summary of the loan characteristics, including the initial loan amount, the loan term, the initial interest rate, whether the rate can rise and if it has a prepayment penalty or a balloon payment. It also includes information about whether an escrow account is required for the loan and an estimate of settlement charges.

The second page breaks down the origination costs and settlement charges.

The third page explains which charges can and which can't increase at settlement, as well as which ones can increase by only up to 10% at the closing table.

"This puts the onus on lenders to be much more accurate in their quoting," Gumbinger says. If they aren't, and elements of the loan rise in price at settlement, lenders could be required to cover extra costs, he adds.



The bottom of the third page serves as a worksheet for borrowers to compare their options.

What this new good-faith estimate doesn't explicitly do, however, is spell out exactly what a borrower's monthly payment would be under the loan and what funds he or she needs to bring to the closing table, says Steve Jacobson, CEO of Fairway Independent Mortgage Corp., based in Sun Prairie, Wis. Consumers need to fully understand those costs before proceeding with a mortgage, he says.

Tony Farwell, CEO of La Jolla, Calif.-based Closing.com, a site that helps consumers shop for closing services, agrees.

"Right now, much of the market is being driven by first-time home buyers, and they will be far less experienced in calculating what their monthly obligations will be," Farwell says. "They tend to underestimate property taxes, home insurance and any other monthly obligations." [Read more on the costs of homeownership that first-time buyers often overlook.](#)

Going shopping

If you think you'll be shopping for a mortgage this year, these new forms should make the process easier. But it still takes some time to go from bank to bank, compare quotes, shop for closing services and decide what firms offer the best value, Dwyer said.

But it could be well worth your time.

In addition to shopping for the best loan terms and comparing origination costs, it's also possible to shop for title and settlement services, as well as home inspection and pest inspection companies, for example, Farwell says. He claims that comparison shopping for closing costs could save consumers hundreds or thousands of dollars.

And in today's economy, perhaps consumers are more willing to do that extra work.

"There is a more cost-conscious environment out there," Gumbinger says. Adds Dwyer: "The real estate debacle and the recession have heightened people's consumerist desire to spend smart."

Remember, too, that while mortgage rates are still low, many in the industry expect them to creep up by the end of the year. As rates rise, consumers will want to be good shoppers to make sure they're getting the best mortgage offer -- and the best deals for closing services -- that they can.

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