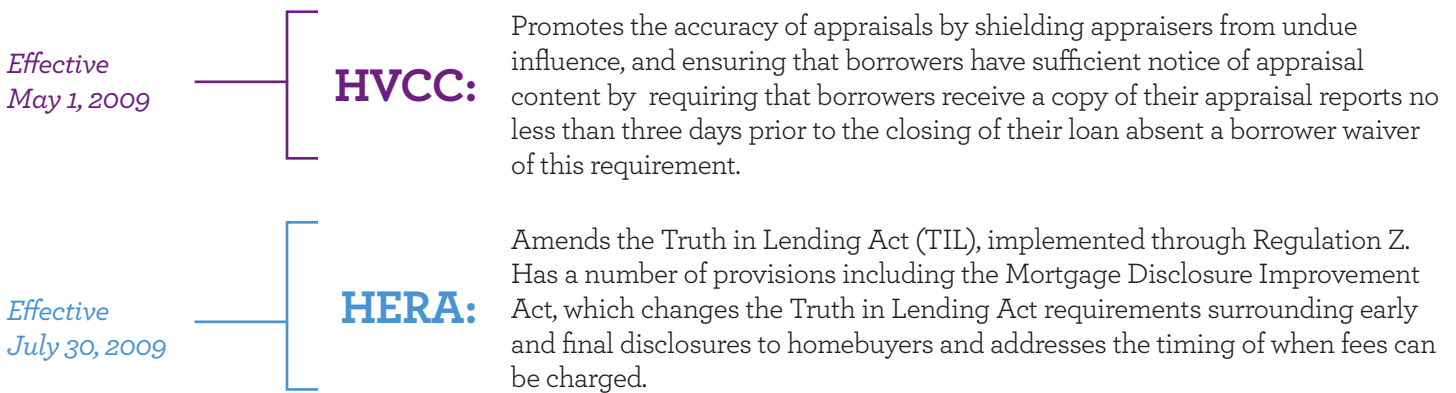


How the new government regulations may impact closing dates

The mortgage industry is certainly undergoing many changes to help provide homebuyers better information when it comes to financing a home. We're providing this document to help you understand some of the new regulations and investor requirements that are taking effect — especially those that impact timelines. Wells Fargo Wholesale Lending is dedicated to working with our industry colleagues to help ensure these changes do not detract from an outstanding experience for our mutual customers.

HERA and HVCC — background information

In 2008, the Home Ownership and Equity Protection Act (HOEPA) and the Housing and Economic Recovery Act (HERA) were passed by Congress, and the Federal Reserve Board published the regulations under the Truth in Lending Act. These regulations were written to provide a more transparent, level and fair regulation of the real estate industry; to add additional steps to help prevent deceptive lending practices; and to protect consumers by making them more informed — and therefore more confident — in their home financing choices. In addition, Fannie Mae and Freddie Mac adopted the Home Valuation Code of Conduct (HVCC) in 2008 to reinforce appraiser independence, valuation protections, and enhance the overall integrity of the valuation process.



Together we'll go far



Four key elements you need to know

1 If the borrower is financing the property, these new regulatory and investor guidelines will impact — and could even dictate — the closing date.

Historically, borrowers and sellers would agree on a closing date, and then service providers – including lenders – would work as best they could toward meeting that date. Going forward, contracts can still be written with a specific closing date in mind, but all parties need to take into account that the earliest any home financing transaction can close is **7 business days after** the borrower is issued his or her initial mortgage disclosures from the lender. (Note: At Wells Fargo Home Mortgage, Saturdays, with the exception of Federal holidays, do count as a business day for the purpose of disclosures only.)

2 Upfront fees cannot be collected by the mortgage broker/originator (except for a credit report fee) until the initial disclosures are received by the borrower. Disclosures are considered “received” 3 full business days after mailing, allowing the fees to be collected on the fourth business day.

Historically, upfront fees could be collected immediately. Starting July 30, 2009, upfront fees cannot be collected, including the appraisal fee, until 4 business days after Wells Fargo Wholesale Lending issues the initial disclosures. (Note: Enhanced and Table Fund brokers can collect fees after the borrower has received the initial disclosures provided by the broker.) The only exception is the credit report fee which can be collected at application. This also means that the appraisal cannot be requested until the fourth business day.

3 The borrower must be provided with a copy of his or her appraisal a minimum of 3 business days prior to closing. The appraisal is considered “received” 3 business days after mailing.

To help expedite the process, Wells Fargo Home Mortgage has elected to have a copy of the appraisal issued directly to the borrower – and the borrower must receive the appraisal at least **3 business days prior** to the mortgage closing. This means the borrower may receive his or her appraisal before or simultaneous to the mortgage broker/originator receiving their copy. If the borrower believes the 3-business-day required review period is not necessary for whatever reason, he or she has the right to waive that requirement.

4 An increase of more than .125% in the Annual Percentage Rate (APR) from the initial Truth in Lending Disclosure (TIL) requires the TIL disclosure to be revised and reissued to the borrower. The borrower must receive a revised TIL disclosure at least 3 business days before closing, providing the borrower with the time required to determine if the borrower is comfortable with his or her loan choice. Again, the TIL disclosure is considered “received” 3 business days after mailing.

A more typical contract date may be 30-45 days — or possibly longer (such as with a new construction loan). Considering that many things occur and may be changed or finalized throughout the course of the transaction, there are a number of things that can impact the borrower’s APR. Therefore it is critical on the front end to ensure that estimated fees are as accurate as possible.

Wait requirement period	Required wait time (in business days)
1. Initial disclosure review	7 days after mailing
2. Upfront fee collection	4 days after mailing
3. Borrower appraisal review	3 days to mail plus 3 days to review prior to closing
4. APR change of .125 plus TIL re-issue	3 days to mail plus 3 days to review prior to closing

Potential impacts to the APR

- Unlocked rate
- Change in loan amount
- Product change
- Change in closing date
- Changes to fees, inclusive of settlement agent fees

The new mortgage process and timeline

Perhaps the easiest way to understand the new process and timelines required by these regulations for a primary residence or second home financing transaction is with a calendar. Since most transactions are not “rush” deals - but rather close in a 30-60 day timeframe, the calendar below illustrates a desired 30-day close. It is wise to plan for at least a 30-day close.

Other assumptions in the illustration below:

- The borrower applies on the first of the month.
- The broker/originator locks in the interest rate at least 7 business days prior to the desired close date of the 30th of the month.
- A home equity loan was not added to the transaction (doing so would require the same disclosure timelines to start for the home equity loan).
- The estimated fees increased the APR more than .125% requiring a re-disclosure of the TIL (the revised APR was final).
- The appraisal was ordered and came in at or above value, and the borrower received his or her copy at least 3 business days prior to the desired close date of the 30th of the month.
- The borrower signs and closes on the 30th of the month (the last day of the required final disclosure review period).

Note: Saturdays are considered a business day only for the purposes of disclosures, unless they are a federal holiday.

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		30 Borrower finalizes contract of sale on a residential property	1 Broker/originator registers and locks the loan (30-day lock)	2	3	4 Federal holiday
5	6 Wells Fargo receives loan package; initial disclosures mailed to borrower initial disclosures Day 0	7 Initial disclosures Day 1	8 Initial disclosures Day 2	9 Initial disclosures Day 3	10 Initial disclosures Day 4 Earliest date allowed to collect upfront fees and request appraisal	11 Initial disclosures Day 5
12	13 Initial disclosures Day 6	14 Initial disclosures Day 7 Earliest date to close per initial disclosure review period	15	16 Ideally rate locked at least 7 business days prior to close	17 Appraisal complete Appraisal Mail Day 0	18 Appraisal Mail Day 1
19	20 Appraisal Mail Day 2	21 Appraisal Mail Day 3 Appraisal Review Day 1	22 Appraisal Review Day 2	23 APR is final TIL must be mailed at least 7 days prior to close. TIL Mail Day 0. Appraisal Review Day 3	24 23 Earliest date allowed to close per appraisal review period TIL Mail Day 1	25 TIL Mail Day 2
26	27 TIL Mail Day 3 - TIL received TIL Review Day 0	28 TIL Review Day 1	29 TIL Review Day 2	30 TIL Review Day 3 Borrower can sign/close	31	

Working together to ensure timely closings - everyone plays a key role

Borrower	REALTOR®/Builder	Mortgage Broker/ Originator	Settlement Agent/ Attorney
<ul style="list-style-type: none"> • Obtain a credit-checked preapproval before you start to shop for a home. • Review the timeline and potential impacts with your mortgage broker/originator so you can keep your REALTOR® or Builder informed. It is wise to plan for at least a 30-day close. • In the initial disclosure packet you receive, the impacts of the new regulations and investor requirements are outlined. Make sure to pose any questions to your mortgage broker/originator. • Know that these new regulations and investor requirements are in place to ensure you have time to consider your loan choice and feel confident to move forward. • Understand that the interest rate on your loan impacts the APR. This means that until you lock in your rate, an exact APR cannot be determined. Minimally plan on locking at least 7 business days prior to the date you wish to close. • Understand that a change in mortgage product could impact your APR and therefore your estimated closing date. • Understand that changes in fees by third parties such as your settlement agent could also impact your closing date. 	<ul style="list-style-type: none"> • Set realistic expectations upfront and throughout the transaction with the listing agent, the seller and the borrower in regards to potential closing dates. It is wise to plan for at least a 30-day close. • Discuss these new provisions with your settlement agents immediately to avoid unnecessary delays down the road. It is critical that any third party fees that impact the APR are accurate because any change of fees that increases the APR more than .125% will require a re-disclosure of the TIL — allowing 6 business days before the transaction can close. This allows 3 business days for mailing and provides the borrower with the time required to determine if they are comfortable with their loan choice. • Provide the settlement agent information to the mortgage broker/originator as early in the process as possible. • Make sure the borrowers understand that their interest rate impacts their APR and that until that rate is locked (which is at their discretion), the initial TIL will not be accurate, so a subsequent TIL disclosure will likely be needed. 	<ul style="list-style-type: none"> • Help borrowers understand timelines and anything that can impact their closing date including changes to the APR. It is wise to encourage borrowers, REALTORS®, and Builders to plan for at least a 30-day close. • Take applications and help borrowers understand their product options. • Issue borrowers their initial disclosures. • Collect fees and request the appraisal. (Note: fees cannot be collected nor the appraisal requested until 4 business days after the borrower has been issued his or her initial TIL. The only exception is the credit report fee which can be collected at application). • Ensure the loan is locked at least 7 business days prior to the desired close date. • Understand that any change to fees that impacts the APR could lead to a required re-disclosure of the TIL. If the APR increases more than .125% then the lender must re-disclose the TIL before the transaction can close. This allows 3 business days for mailing and provides the borrowers with the time required to determine if they are comfortable with their loan choice. 	<ul style="list-style-type: none"> • Make sure any third party fees that impact the APR are accurate - understanding any change to fees that impact the APR could lead to a required re-disclosure of the TIL (if they collectively increase the APR more than .125%). The re-disclosure requires the borrower be given an additional 3 business days review period prior to closing, after receipt. • Work proactively on providing a preliminary HUD with accurate fees to lenders enabling them to issue the TIL 6 business days prior to the scheduled closing date. This allows 3 business days for mailing and provides the borrowers with the time required to determine if they are comfortable with their loan choice.

The best way to expedite the close is to lock in the rate and fees as soon as possible.

Frequently asked questions

1. How do these new requirements impact applications taken prior to their effective dates?

- For HVCC, applications taken prior to May 1, 2009 are not impacted.
- For HERA, applications taken prior to July 30, 2009 are not impacted.

2. Does the issuance of the initial disclosure, re-disclosure and fee collection timing requirements apply to investment properties?

No. These requirements only apply to primary residence and second home transactions.

3. Do the disclosure wait periods begin when the broker provides disclosures or when Wells Fargo Home Mortgage issues disclosures?

The disclosure wait periods, both for initial disclosures as well as re-disclosure, begin when Wells Fargo Home Mortgage mails the disclosures to the borrower. However, the wait periods for Table Fund and Enhanced loans will be based off the broker's issue/print date of the initial and subsequent Truth In Lending disclosures.

4. The final TIL must be received 3 business days prior to closing. Is that 3 full days?

Remember, we must allow 3 business days for mailing, then the borrowers have the 3-business-day review period required to determine if they are comfortable with their loan choice. Closing can occur on the third business day of the review period.

5. What if the borrower adds a home equity loan or line of credit after the initial application? How are disclosures impacted?

- **Home equity loan:** The initial disclosure period starts over and all disclosures must be issued for the home equity loan.
- **Home equity line of credit:** There is no impact.

6. How do these new regulations impact escrow states?

Brokers doing business in escrow states will need to adapt to the new regulations by providing an initial HUD-1 before closing documents are released. In addition, fees can no longer be estimated. If fees change and result in an increase in the APR of more than .125%, it will result in re-disclosure of the TIL and delay the signing/closing date by 7 business days.

7. Can last minute/rush deals still be accommodated?

The new regulations and investor guidelines definitely redefine "rush." The minimum number of days to close a transaction is 7 business days after Wells Fargo Wholesale Lending issues the initial disclosures to the borrower. Remember, however, this would be a best-case scenario. If the APR increases by more than .125%, an updated TIL will be required and will add an additional 6 business days to the timing. This allows 3 business days for mailing and provides the borrowers with the time required to determine if they are comfortable with their loan choice. It is wise to plan on a minimum of 30 days to close.

8. Can the credit report fees be collected at the time of preapproval applications?

Yes. The credit report fee is the only fee that can be collected at a preapproval.

9. How do you know if the initial APR has to be re-disclosed?

An APR increase of more than .125% from the initial TIL requires re-disclosure of the new and final APR via the Truth in Lending (TIL) disclosure a minimum of 6 business days prior to the close date. If the change is less than or equal to .125%, then no re-disclosure is required.

10. For the purpose of these new disclosure timelines, what is considered a business day? Which holidays will not be included as business days?

At Wells Fargo Home Mortgage, all weekdays and Saturdays are considered a business day unless it is a Federal holiday. Federal holidays include: New Year's Day, Memorial Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day, and Christmas Day.

11. Fees may not be collected from the borrower until 4 business days after the initial disclosures are issued. Can broker-paid fees be collected before that time? For example, it is common in some areas that the broker pays the appraisal fee.

No, the borrower on the application must have received the initial disclosures before the broker can pay the appraisal fee on their behalf.

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the way, helping to
establish a foundation
for a stronger, healthier
and more responsible
industry.

12. Can the TIL re-disclosure be sent within the 7-business-day period from when the initial disclosures are issued?

Yes, the required re-disclosure of the TIL can be sent within the first 7-business-day period.

13. Can the loan be locked at the time of application if fees have not been collected yet?

Yes.

14. Do these regulations and investor requirements only impact purchase transactions or are refinances subject to these same guidelines?

Both purchase and refinance transactions are impacted.

15. Is the 3-business-day right of rescission still in effect?

Yes, the right of rescission is still in effect for refinance transactions. The loan can close 6 business days after any TIL re-disclosure is issued, then the right-of-rescission period begins. The loan can fund after the rescission period expires.

For more information, contact your Wells Fargo Wholesale Lending account executive today:

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