



IMPORTANT ANNOUNCEMENT

TO: Approved Homestar Rural Housing Originators

DATE: May 4, 2010

FROM: HOMESTAR WHOLESAL

RE: **RESPA Regulatory Changes - Float to Lock Clarification**

Homestar Financial would like to update our originators on recent HUD clarifications regarding the Real Estate Settlement Procedures Act (RESPA) changes that went into effect on January 1, 2010.

Block 1 of the Good Faith Estimate May Not Increase on a Float-to-Lock

Good Faith Estimate (GFE) - "Our Origination Charges"- Block 1:

HUD has more clearly defined its intention for originators to provide their complete origination charges to customers when their initial Good Faith Estimate is prepared and provided to the consumer **whether or not the loan is locked**. HUD has directed originators to disclose the costs associated with the origination of the loan, including investor fees, in Block 1 of the GFE at the time of initial disclosure. It is important to note HUD is requiring this cost to be disclosed even when the rate is floating. Once the loan is locked, Block 1 cannot increase based solely on the interest rate lock.

As a reminder, the fees in Block 1 have a \$0 tolerance. Therefore the fees in Block 1 would not be able to increase, unless there is a valid changed circumstance affecting the terms or product. Furthermore, a change in the loan amount impacts only that portion of the fees in Block 1 that are calculated based on a percentage of the loan amount.

Additionally, HUD has also clarified that the "Important dates" section on page one of the GFE must also disclose a date the interest rate is available through (item 1), even if the rate is floating. **Originators can no longer leave item 1 of the "Important dates" section blank or use "N/A" as a valid entry for float applications.**



Example 1:

The broker takes the application but the borrowers do not wish to lock their loan. Broker must disclose the origination charge in Block 1 of the GFE which includes all costs of the purchasing lender. As this Block only relates to the cost involved for the origination of the loan, the final interest rate should not influence the cost to originate the loan. For example, if the broker's originating costs are \$2,000.00 and HFC's costs are \$635.00 then the broker must disclose \$2,635.00 in Block 1 of the GFE whether or not the loan is locked.

Your Adjusted Origination Charges	
1. Our origination charge This charge is for getting this loan for you.	2,635.00
2. Your credit or charge (points) for the specific interest rate chosen <input checked="" type="checkbox"/> The credit or charge for the interest rate of 5.375 % is included in "Our origination charge." (See item 1 above.) <input type="checkbox"/> You receive a credit of \$ <input type="text"/> for this interest rate of <input type="text"/> %. This credit reduces your settlement charges. <input type="checkbox"/> You pay a charge of \$ <input type="text"/> for this interest rate of <input type="text"/> %. 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 of this loan.	0.00
A Your Adjusted Origination Charges	\$ 2,635.00

Good Faith Estimate (GFE) - "Your Credit or Charge for the specific interest rate chosen" - Block 2:

HUD has directed that the credit or cost related to the interest rate of a loan be passed directly to the customer. If an applicant chooses not to lock the interest rate, Block 2 of the GFE may either be shown blank, or with the estimate of the credit or cost associated with the interest rate being applied for at the time of initial disclosure. When the customer later locks the loan, the broker must complete a changed circumstance form and provide the customer an updated GFE which discloses the credit or cost associated with the locked interest rate in Block 2. **Block 1 of the GFE, however, may not increase.**

Example 1:

The broker had provided an initial GFE to the customer based on an interest rate that is not locked. No amount was disclosed in Block 2. The borrower later chooses to lock the interest rate above the interest rate initially discussed. This interest rate and lock period



now provides the borrower with a credit of \$1,500.00 The broker completes a changed circumstance form and provides the borrower an updated GFE with Block 2 showing a credit to the borrower for \$1,500.00

Block 1 had initially disclosed: \$2,635.00 (which does not increase with lock)
 Block 2 now has: \$1,500.00 (credit disclosed)

Block 'A' Adjusted Origination Charges totals \$1,135.00 which represents the actual cost the borrower will be responsible for paying to complete this transaction.

Your Adjusted Origination Charges	
1. Our origination charge This charge is for getting this loan for you.	2,635.00
2. Your credit or charge (points) for the specific interest rate chosen <input type="checkbox"/> The credit or charge for the interest rate of [] % is included in "Our origination charge." (See item 1 above.) <input checked="" type="checkbox"/> You receive a credit of \$ 1,500.00 for this interest rate of 5.375 %. This credit reduces your settlement charges. <input type="checkbox"/> 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 of this loan.	-1,500.00
A Your Adjusted Origination Charges	\$ 1,135.00

Example 2:

The broker had provided an initial GFE to the customer based on a loan that is not locked. No amount was disclosed in Block 2. The borrower has chosen to lock the interest rate below the interest rate initially discussed. The broker completes a changed circumstance form, and provides the borrower an updated GFE with Block 2 showing a discount to the borrower for \$250.00 which represents the cost associated with the selected interest rate.

Block 1 had initially disclosed: \$2,635.00 (which does not increase with lock)
 Block 2 now has: \$ 250.00 (cost disclosed)

Block 'A' Adjusted Origination Charges totals \$2,885.00 which represents the actual cost the borrower will be responsible for paying to complete this transaction (example shown on following page).



Your Adjusted Origination Charges	
1. Our origination charge This charge is for getting this loan for you.	2,635.00
2. Your credit or charge (points) for the specific interest rate chosen <input type="checkbox"/> The credit or charge for the interest rate of [] % is included in "Our origination charge." (See item 1 above.) <input type="checkbox"/> You receive a credit of \$ [] for this interest rate of [] %. This credit reduces your settlement charges. <input checked="" type="checkbox"/> You pay a charge of \$ 250.00 for this interest rate of 5.375 %. 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 of this loan.	250.00
A Your Adjusted Origination Charges	\$ 2,885.00

As always, we at HFC remain committed to the USDA Guaranteed Rural Housing Program and appreciate your support of the home financing needs of rural America. If you have questions or need additional assistance, please feel free to contact your HFC Account Executive.