

Understanding the Good Faith Estimate

Overview

When you apply for a mortgage, the Real Estate Settlement Procedures Act ("RESPA") requires your lender to issue a Good Faith Estimate ("GFE") within three business days after receiving your application. This estimate will outline a list of costs and fees associated with the completion or "closing" of your transaction. The GFE is "good" for ten business days after issuance. The lender must honor GFE figures up to the corresponding tolerance level (explained below), excepting certain defined "changed circumstances" (an act of God, war, disaster or other emergency; or inaccurate information reported by the borrower, for example) or a failure to "lock down" the interest rate within the allotted timeframe.

In the event that your loan application is denied before the three business days after application, your lender is not required to issue a GFE.

What is a GFE?

The GFE is a government-standardized form, which can help you compare quotes from various lenders. This quote will outline loan charges, third-party fees, and other settlement costs, and even includes a section in which to input figures from other GFEs for your own comparison. Prior to the standardization of the GFE, lenders were not uniform in their interpretation of loan and settlement fees, which made it difficult to compare and contrast lender and other settlement fees.

Fees and Tolerance Levels

The figures on your GFE are divided into three different categories, each of which is held to a different tolerance level. A tolerance level denotes the amount that the GFE figures can increase at closing.

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Fees from your lender, such as their origination charge, fees for credits or points, each have a 0% tolerance level, meaning that these fees cannot increase at the time of closing. Transfer taxes charged by governmental entities are also subject to a 0% tolerance.

Certain other GFE fees are aggregated together and the aggregate at closing can't exceed the aggregate quoted on the GFE by more than 10%. These include government recording charges and services required by the lender from selected vendors – like title services and title insurance from companies – if the lender identifies the service provider.

Lastly, your GFE will show charges that are not subject to any tolerance and can therefore change at the time of closing. These include daily interest charges, homeowners insurance, initial escrow deposit, and required services that you can shop for, such as title services and lender's title insurance if you use companies not identified by your lender.

The GFE will outline a list of costs and fees associated with the completion or "closing" of your transaction.

HUD-1 Correlation

To keep settlement fees transparent, GFE box numbers are shown on line numbers of the HUD-1 Settlement Statement to which they correspond. Additionally, the top portion of page 3 of the HUD-1 provides a comparison of GFE and HUD-1 charges for each of the tolerance categories.

Violations

In the event that the figures shown on the GFE have increased more than the applicable tolerance level, the lender must cure the violation within 30 days, by paying the borrower an amount of money equal to the amount by which the tolerance level was exceeded.