As of October 3, 2015, there were significant changes to the mortgage process for loans secured on or after this date. For most loans, new federal regulations require new disclosure forms. It also adds responsibilities — and reallocates other responsibilities — for lenders, title and other service providers, as well as buyers and sellers. Most important for consumers, the timelines for disclosures have changed. You should become familiar with the new forms and the new timelines so that you can make wise decisions and help speed the process.

UNDERSTANDING THE NEW FORMS (LE AND CD)

Prior to October 3, lenders provided borrowers applying for loans disclosure forms commonly referred to as the Good Faith Estimate (GFE) and an early Truth in Lending (TIL) disclosure. Borrowers who proceeded through the process received a HUD-1 and a final TIL at closing. The new rules replace and combine the forms:

**Loan Estimate (LE):** The LE replaces the GFE and early TIL. An LE will be delivered or mailed to a borrower within 3 days of application. A sample LE is available on the Consumer Financial Protection Bureau’s (CFPB) web site at www.consumerfinance.gov/f/201312_cfpb_tila-respa_loan-estimate.pdf

**Closing Disclosure (CD):** The CD replaces the final TIL and the HUD-1. The CD must be received by a borrower no later than 3 days before closing. A sample CD is available on the CFPB’s web site at http://files.consumerfinance.gov/f/201312_cfpb_tila-respa_annotated-closing-disclosure.pdf

These forms are intended to provide you with important information about your loan and its terms and costs. If you apply for a loan with more than one lender you may compare LEs side-by-side to select the best loan for you. (Please be sure you are comparing the same products.)
The LE and the CD can be compared to help you identify any costs that might have increased or decreased since the LE was issued.

Please note that not all real-estate related transactions will use these forms. While the vast majority of mortgage loans will require the LE and the CD, some types of loans — those for mobile homes, house boats, reverse mortgages and home equity lines of credit, for example — will still use the old forms.

NEW TIMELINES

These new forms are subject to specific time limits. These include:

3 business days to receive an LE: Once you have applied for a mortgage, a lender is afforded 3 business days to deliver or place in the mail your LE.

7 business days between LE and closing: There must be a minimum of 7 business days between when the LE is delivered or mailed and your loan closing.

3 business days before closing: You must receive the CD at least 3 business days before the closing. This period is intended to give you sufficient time to review the CD and ask questions.

An additional 3 business days: If you or your lender make certain changes to the annual percentage rate (APR) or the loan product or a prepayment penalty is added between the time you receive your CD and your closing, a new 3 business day review period will be triggered.

Because the requirements are strict, it is more important than ever to communicate as needed with your lender and make sure all information is provided as timely and as accurately as possible. Otherwise, your closing could be delayed. Considering the new requirements and the liability that comes with violations, it is unlikely that lenders will permit borrowers to waive these timing requirements.

GETTING PRE-APPROVED

It is strongly advised that you get pre-approved for a loan before shopping for a home. Pre-approval or pre-qualification will give you a much clearer picture of how large a mortgage you may qualify for to factor in to your consideration of what other resources you have available to pay for a home and sustain your mortgage successfully. Seeking a pre-approval can help develop a relationship with a lender when you do find a home you wish to buy. You can get pre-approved by multiple lenders.

Pre-Application Estimate of Loan Costs

Before you apply for a loan you may request an estimate of loan costs from a lender. Such an estimate should provide you with a good idea of the costs of a particular loan product or products. However, such an estimate does not represent a commitment to terms and costs the way an LE does.

Applying for a Mortgage to Obtain an Loan Estimate

In order for you to apply for a mortgage to obtain an LE, you will need to provide a lender with your name, income, social security number, property address (the property you wish to purchase), an estimate of the value of the property, and the mortgage loan amount sought. Once you have submitted this information, the lender is obligated to deliver or mail you an LE within 3 days of application. However, additional information such as your mailing and email address will help speed the process and other information such as the type of product you are interested in will result in more useful information.

The LE is intended to help you understand the terms and costs of a mortgage loan from a lender or mortgage broker. It enables you to compare various loan offers. The LE is not a contract and does not obligate you in any way. However, it does commit the lender to many of the terms and costs in the LE absent changes in circumstances following application if you accept the Loan Estimate within 10 business days. If you are interested in moving forward with a particular loan and lender, however, you must clearly indicate your intent to proceed with that loan within that period.
How to Shop for a Mortgage: Comparing Your Loan Estimates

The total cost of a mortgage involves more than just the monthly payments. There are also origination charges, discount points, title charges, taxes, amounts to be held for taxes and insurance payments and other miscellaneous costs. When you compare different mortgages, be sure that you take into account all the factors that can influence your final cost.

After You Apply

Your application, along with the supporting information you provide, is turned over to the loan processing department and then to an underwriter.

Verification: Processing specialists will verify the information you supplied. That is, they will make sure that it is accurate. In addition, they will continue evaluating your credit, reviewing any other documents needed and obtaining an appraisal of the home.

Underwriting: After verification, the underwriter receives your application. Underwriting is where the final decision to approve or decline your loan is made. The loan officer you work with does not make that decision. Each lender uses different underwriting guidelines and statistical models to make a decision.

Components of Your Monthly Mortgage Payment

There are many amounts included in your monthly mortgage payment:

Principal: The principal is the amount of money you borrow. It frequently is arrived at as the sale price of the home you purchased minus the down payment you made. In your monthly payment, it is the amount of money that goes to pay back your loan and reduce your loan balance.

Interest: Interest is what you pay to borrow the money — it is the cost of using money that is not your own. At the beginning of your loan term, most of your payment goes toward interest but, over time, the amount applied to interest decreases and the amount applied to principal increases.

Taxes: When you own a home you pay an annual tax on the property. Each month you may be required to pay 1/12 of your annual taxes plus a limited amount need to maintain a cushion in the account for a late payment.

Insurance: The cost of insurance in the monthly payment frequently includes both the homeowners insurance and the mortgage insurance (if it is necessary).

Escrow Accounts

In most cases the portion of your monthly mortgage payment paid for taxes, homeowners insurance, and mortgage insurance (if it is required) is paid into an escrow account. The amounts escrowed can fluctuate even if you have a fixed rate mortgage due to potential changes in taxes or insurance premiums. Lenders will often, but not always, require an escrow account. Most states permit lenders to collect two months of estimated annual real estate taxes and insurance payments at the closing. In some cases, the interest rate on your loan may be slightly higher if you choose not to have an escrow account.

Understanding Points, Rates, and Fees

Discount Points

A point is equal to 1 percent of the total amount of a mortgage; one point on a $100,000 mortgage is $1,000. Many lenders offer mortgages with combinations of points and interest rates. The interest rate on a loan affects your monthly mortgage payment while the points are paid at settlement and affect the amount of cash you must bring to settlement. In general, the lower the interest rate the more points you might pay at settlement. For example, if a loan with the current market interest rate requires two points, a loan with an interest rate that is one-half percent higher than the market rate may have no points. Your choice among the various interest rate and points options will depend on how much cash you have available for the closing and settlement versus how high your interest rate and monthly payment might be.

Final Interest Rate

Many lenders will quote an interest rate and fee at the time you apply for a loan and then guarantee, or lock, the rate for a specified time. While this protects you from paying more if interest rates rise, it also means you will pay the quoted rate even if interest rates fall. You should also be aware that, at least in the early stages of the new disclosures, closings are expected to take longer. You will want your rate lock period to be long enough to get you through closing and settlement.
Changes in the Fees

Your LE and your CD are designed to be easily compared. When comparing the LE and the CD, you should be aware that some fees are allowed to change, other fees are only allowed to increase by 10 percent as a group, and still others are not allowed to increase at all unless circumstances change.

Except for changed circumstances, no fee increases are allowed in:

- Lender or broker charges
- Fees charged by affiliate of the creditor
- Fees charged by service provider where the consumer must select from a list of providers furnished by the lender
- Transfer taxes

Except for changed circumstances, there is a 10 percent limit overall to other third-party charges, such as non-affiliated title.

Fees that can increase, assuming the lender is acting in good faith, include:

- Impounds
- Property taxes
- Escrows
- Hazard insurance

All the terms and costs included in your loan should be included in the LE and the CD. You should ask your lender as soon as possible if you have any questions or concerns about anything on those forms.