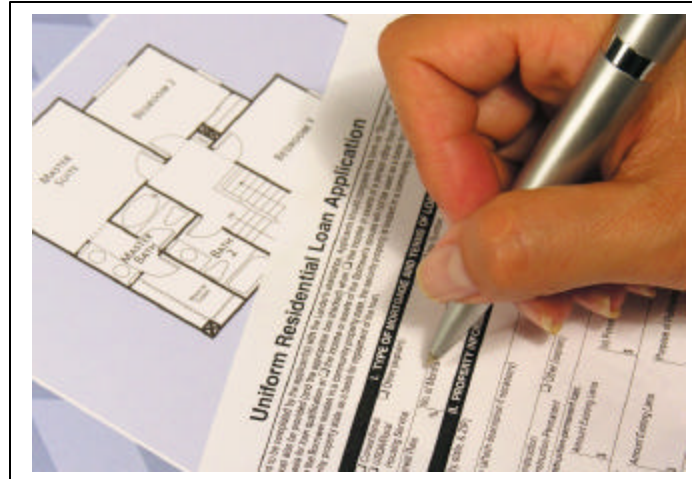


RESPA LAWS



It's all about Closing Costs and Settlement Procedures

RESPA (Real Estate Settlement Procedures Act) was enacted in 1974 to provide consumers with advance disclosures of settlement charges and to prohibit illegal kickbacks and excessive fees in connection with their mortgage loan. Lenders have 3 days to provide you with this information.

The purpose is two-fold:

1. To provide consumers with information about the real estate mortgage transaction and the costs associated with it.
2. To prohibit certain practices, such as referral fees between settlement service providers, that result in higher costs and reduced quality to consumers.

Lenders must disclose the following at the time of loan application...or within 3 days:

- An information booklet, which contains consumer information regarding various real estate settlement services.
- A good faith estimate of settlement costs, which lists the charges they will be likely to pay at settlement. This is only an estimate, so the actual charges may differ.

- The lender must disclose if they are requiring the buyer to use a particular closing agent.
- A Mortgage Servicing Disclosure Statement, which discloses to the borrower whether the lender intends to service the loan or transfer it to another lender.
- Information about complaint resolution.

*Note – If the loan is denied within 3 days, RESPA does not require these documents.

Disclosures to be given in writing before closing occurs:

- An Affiliated Business Arrangement Disclosure, which tells the borrower if the lender has a beneficial interest in the transaction. *Translated: They must explain the business arrangement and monies involved.*
- HUD-1 Settlement Statement – The standard closing form that clearly shows all actual charges to the buyer and seller in connection with the closing. RESPA allows the borrower to request to see the HUD-1 one-day before the actual closing. This doesn't always happen though. In most instances, everyone is rushing around to the last moment to get the documents ready.
- An Initial Escrow Statement – itemizes the estimated taxes, insurance premiums and other charges anticipated to be paid from the Escrow Account during the first twelve months of the loan.

Disclosures after Closing;

- Annual Escrow Statement – to be given once a year. This itemizes all deposits made and payments paid from the Escrow Account. It also notifies the borrower of any shortages or surpluses in the account.
- Servicing Transfer Statement – This is required if the loan services sells or assigns the servicing rights to the loan to another loan servicer. This should always be done at least 15 days before the effective date of the loan transfer.

Consumer Protection and Prohibited Practices

RESPA prohibits anyone from giving or accepting a fee, kickback or any thing of value in exchange for referrals of settlement business involving a federally related mortgage loan. Fee splitting and receiving unearned fees for services not actually performed is also prohibited. Violations are subject to criminal and civil penalties.

RESPA prohibits a seller from requiring the homebuyer to use a particular title insurance company as a condition of the sale. Buyers may sue a seller who violates this provision for an amount equal to three times all charges made for the title insurance.

