

## Understanding the Good Faith Estimate.

The Good Faith Estimate (GFE) is a required disclosure that provides a description of the fees required to obtain your loan. It used to be just an estimate of the fees the lender can charge, but beginning in January of 2010, the lender is now committed to most of the fees on the GFE. Because the GFE is binding, lenders may now provide Loan Scenarios or Initial Fee Worksheets while you are comparing proposals prior to deciding to lock in. When you are ready to commit, it's important to compare the GFE to the loan proposals and make sure the costs are the same.

Virtually all closing costs, OTHER THAN LENDER FEES, are determined by third parties. These third party charges include the appraisal, all associated title company charges, escrow reserves, and pre-pays (homeowner's insurance and taxes). These costs are not controlled by the lender.

As you compare GFE's, note that the fees are broken down into three categories.

These charges <b>cannot increase</b> at settlement	The total of these charges <b>can increase up to 10%</b> at settlement	These charges <b>can change</b> at settlement
<ul style="list-style-type: none"> <li>• Our origination charges</li> <li>• Your credit or charge (points) for the specific interest rate chosen (<i>after you lock in your interest rate</i>)</li> <li>• Your adjusted origination charges (<i>after you lock in your interest rate</i>)</li> <li>• Transfer taxes</li> </ul>	<ul style="list-style-type: none"> <li>• Requires services that we select</li> <li>• Title services and lender's title insurance (<i>if we select them or you use companies we identify</i>)</li> <li>• Owner's title insurance (<i>if you use companies we identify</i>)</li> <li>• Required services that you can shop for (<i>if you use companies we identify</i>)</li> <li>• Government recording charges</li> </ul>	<ul style="list-style-type: none"> <li>• Required services that you can shop for (<i>if you do not use companies we identify</i>)</li> <li>• Title services and lender's title insurance (<i>if you do not use companies we identify</i>)</li> <li>• Owner's title insurance (<i>if you do not use companies we identify</i>)</li> <li>• Initial deposit for your escrow account</li> <li>• Daily interest charges</li> <li>• Homeowner's insurance</li> </ul>

The following GFE sections are controlled by the lender and cannot change unless the loan data changes.

**Boxes 1 and 2 are the most important area of the GFE to review as you consider lenders.**

**Your Adjusted Origination Charges** -- These are the fees the lender charges and the monies that will be paid to the lender. This will include any origination points, discount points, underwriting fees, processing fees, and any junk fees if the lender charges any (goodmortgage.com does not have any junk fees.) These fees CANNOT increase at closing.

**Lender Credits** – In exchange for a slightly higher interest rate, in some cases the lender will offer a lender credit to offset some of the lender or third party fees. These credits will be shown on the loan proposal and not on the GFE in most cases. The GFE describes the costs, not the bottom line.

**Box 8** — Transfer Taxes: These charges are for state and local fees on mortgages and home sales.

The remaining GFE sections contain other information important to your borrowing process and should remain constant regardless of the lender you choose. The following can increase up to 10%.

**Box 3** —Required Services that we select: If there are any third party vendors the lender requires you to use, they will be in this box.

**Box 4** —Title Services and lender's title insurance: Title fees are determined by the title company and may include but aren't limited to closing or escrow fees, document preparation fees, notary fees, attorney fees, title insurance, endorsements, exam fees. These fees exist regardless of your lender choice. You can select your own title company or closing attorney not on the lenders list, but if you do these fees can increase and the lender is not bound to the fees on this part of the GFE.

**Box 5** —Owners Title Insurance: If you decide to purchase an Owner's Title Insurance policy the cost will be here. You can select your own title company not on the lenders list, but if you do these fees can increase and the lender is not bound to the fees on this part of the GFE.

**Box 6** —Required Services that you can shop for: If there are third party charges that you can shop for, they will go here. If you select the company from a list the lender provides, the charges can only increase by 10%. Otherwise the cost will be the actual cost of the company you select and the lender will not be bound by the GFE.

**Box 7** —Government Recording Charges: These are any recording charges your state or local government may charge.

The remaining GFE sections contain other information important to your borrowing process and should remain constant regardless of the lender you choose. The following CAN increase at Settlement.

**Box 9** —Initial deposit for your escrow account: Reserves are funds the lender requires to be paid at closing if you plan to escrow your taxes and insurance. You pay a determined number of month's taxes at closing depending on the county and state where the property is located, as well as when the taxes are collected. Tax payments must be current for the year. You also pay a determined number of month's insurance. These fees are paid regardless of what lender you choose. You do not pay any fees in this section if you choose to handle escrow on your own. If you are waiving escrows this will be \$0, but in certain circumstances, a one-time fee at closing (.25% of the loan amount) to handle escrow on your own may be charged by some lenders that will be in Box 2.

**Box 10** —Daily Interest Charges: You pay interest on the remaining days of the month at closing. If you close on the 16<sup>th</sup>, you will pay 15 days of interest at closing if the month has 30 days.

**Box 11** —Homeowner's insurance: You are required to pay your first year's insurance premium prior to closing if you are purchasing a home.

**Changed circumstances** – if any of the underlying facts provided by the borrower to the lender prior to providing the initial GFE change, the lender fees can change. In the new RESPA laws this is referred to as a changed circumstance. A new GFE will be provided within 3 days of the lender discovering the changed circumstance.

Comparing lenders by reviewing their Good Faith Estimates should not be a stressful process. Focus on **Box 1 and Box 2 and Line A – Adjusted Origination Charges** as well as the **interest rate** lenders can provide and any **Lender Credit** they offer, and the best lender choice should be easy to determine.

At closing, the actual charges are reflected on the HUD-1 Settlement Statement. When dealing with a reputable lender, the GFE will be a **close estimate** of charges on the HUD-1.