



By **Janine M. Atamian**
Executive vice president
of settlement services
Lincoln Appraisal & Settlement Services

Leveraging the GFE

The new good-faith estimate can promote communication and help brokers shine

As mortgage brokers continue to use the new good-faith estimate (GFE; download: sctsm.in/HUDGFE) and work under the revised Real Estate Settlement Procedures Act (RESPA), they can benefit by understanding how to use the GFE to encourage dialogue with borrowers and to build business.

The new GFE clearly delineates a summary of loan terms and estimated costs and charges. It also details key dates associated with a loan.

It does not, however, itemize closing costs. Instead, the document provides a flat-line total of fees regardless of who pays the fees or who receives them. It also doesn't allow for disclosure of seller credits, which can be confusing. Herein exists a great opportunity.

Mortgage brokers should define and detail terms and conditions and guide consumers to the program that best suits their needs. Because the new GFE doesn't allow for itemization, it creates a conduit for brokers to have in-depth conversations with consumers that may not have occurred previously. These discussions benefit brokers and consumers by fostering better customer service and active communication.

The GFE also encourages the disclosure of more than one loan scenario. This lets brokers understand their clients' wants and needs, particularly as they apply to the tradeoff between settlement charges and interest rate. It also gives borrowers a chart to compare GFEs from different brokers. This encourages brokers to talk about

the pros and cons of specific scenarios and provides brokers with new information.

Terms of agreement

With some limited exceptions, brokers bind themselves to the loan terms and settlement charges they list on their GFEs. The interest rate disclosed must be valid through a date set on Page 1, and the settlement charges and other loan terms must be valid for at least 10 days. This gives borrowers 10 days to shop for other loan options and allows brokers the same amount of time to stay in touch and answer borrowers' questions.

Brokers also can help clients select services such as title insurance. The total charge of this service and others can't increase more than 10 percent of the quoted amount on a GFE, if borrowers use companies brokers identify or choose. This also creates opportunity.

Many borrowers aren't familiar with a title agent or provider of other required services and may be unaware of the criteria — other than price — they should use in making a decision.

Brokers can shine by offering insights about providers and by recommending those with a deep understanding of RESPA and a proven track record of compliance. This can help borrowers receive exemplary service.

Brokers also can engage borrowers in discussions about how they're paid. Under RESPA, the days of front-end and back-end compensation for brokers are gone. All

broker compensation must be indicated clearly upfront. Any yield-spread-premium or discount points must be shown on Page 2 of the GFE.

Brokers as negotiators

Mortgage brokers should see themselves as negotiators. They negotiate with service-providers for better pricing and service, and they negotiate with lenders to find the most-beneficial loan terms for their borrowers. High-volume brokers can negotiate with lenders for waivers of underwriting fees and other traditional lender fees.

Based on volume, brokers also can ask for better back-end pricing, which could lead to higher credits for consumers. Theoretically, this means if borrowers use the shopping chart on Page 3 of the GFE to compare a loan scenario brokered to a specific lender against a direct retail loan the same lender offers, the broker's deal could be more appealing because closing costs would be less. By discussing this with borrowers, some brokers can find themselves closing more loans.

Ultimately, the new GFE encourages active dialogue between brokers and consumers and highlights the services offered by

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Janine M. Atamian is executive vice president of settlement services for Lincoln Appraisal & Settlement Services. She worked in the mortgage industry for more than 15 years and has experience in origination, processing, funding and compliance. Atamian has handled mortgage broker, banker and loan-originator licensing in 33 states. She has dealt with regulatory-compliance audits and repurchase demands, and she has extensive experience in all aspects of settlement services. Contact (401) 831-3500 or info@lincolnappraisal.com; visit www.lincolnappraisal.com.

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brokers, who should conduct research and present alternatives to borrowers. Brokers who have worked with various products and programs can make educated comparisons of the benefits and disadvantages of different scenarios.

By working with a broker, borrowers can find the loan process less time-consuming, more satisfactory and more convenient. Brokers who encourage discussions that assist borrowers through the process should find themselves building business on a foundation of service and knowledge. ●
