



Helping Homebuyers and Housing

By John C. Weicher

Hudson Institute



Helping Homebuyers and Housing

By John C. Weicher

HUD has just completed a badly needed reform of the rules governing real estate settlements. The changes are consistent with President Obama's campaign pledge to mandate accurate loan disclosure. He can minimize the risk of a future subprime mortgage mess and stimulate the housing market by letting the new rules stand.

As he confronts the problems of the subprime mortgage market, there is one thing President Obama can do that will help homebuyers and homeowners, especially minority and lower-income buyers.

In mid-November, HUD issued new rules under the Real Estate Settlement Procedures Act (RESPA), so that homebuyers can better understand their mortgage: what it's going to cost at closing, what monthly payment will be, and how it can change over time. Those rules will help homebuyers and give some stimulus to the extremely depressed housing market, if President Obama and the new HUD leadership let them go fully into effect.

Under the new rules, homebuyers will have a clear explanation of the total cost they will pay at settlement; the various categories of closing costs are listed, and there are limits on how much most costs can change. The new rules will require lenders to provide a clear Good Faith Estimate (GFE) within three days after application (borrower provides all necessary information). The GFE shows clearly what the total costs will be and how much the homebuyer will have to pay at the settlement table. The homebuyer will know what he or she is paying, and can compare mortgages. There are limits on the extent to which closing costs can increase from this GFE; the homebuyer is not buying a pig in a poke.

PERSPECTIVES FOR THE NEW ADMINISTRATION

The new rules were issued on November 12, and generally go into effect on January 16. HUD's new, standard GFE will be required of all lenders on January 1, 2010, to allow time for changes to their computer software and other adjustments. When that happens, homebuyers will save about \$700 in closing costs, on average—a welcome stimulus to homebuyers and the housing market.

Endnotes

1. Susan E. Woodward, *A Study of Closing Costs for FHA Mortgages*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, May 2008, available at http://www.huduser.org/Publications/pdf/FHA_closing_cost.pdf.
2. Mr. Obama's proposal is described at <http://www.barackobama.com/issues/economy/index.php#home-ownership>.

HUDSON INSTITUTE

1015 15
A .C. 20005
; 202-974-2400