Understanding a Good Faith Estimate

The GFE, short for Good Faith Estimate, shows the interest rate, term, loan amount, and all settlement costs on a particular loan. The items on the GFE can be divided into three major groups: Interest rate and points, fixed-dollar loan fees, and third-party charges. A dishonest loan provider can manipulate all of these figures. There is no legal liability for errors on the GFE.

The 800 section of the GFE is what the lender, broker, appraisal fees are. These are the fees you will want to compare with different lenders and brokers. the 900, 1000, 1100, 1200, & 1300 are all third party fees. The 1100 section are the fees charged by the title company.

Federal law requires lenders and brokers to provide a written good faith estimate within three days after taking an application from a borrower.

On the GFE (Good Faith Estimate) you will notice some letters at the end of line 800: PFC, S, F, POC. PFC means prepaid finance charge. These are the charges that are associated with calculating APR. S means Seller Paid. These are items that the seller will be paying at closing. The F means FHA allowable. These items are permitted by FHA. Lastly the POC stands for Paid Outside of Close. This means that these items will be paid for, generally, before close. Some common items that are paid outside of close would be appraisal fees, homeowner’s insurance premiums and homeowners association dues. On some GFE's these letters may simply be filled in after the dollar amounts of each fee.

In California, the Good Faith Estimate is also called the MLDS or Mortgage Loan Disclosure Statement, when produced by a mortgage broker rather than the direct lender. The statement will itemize which costs are from the broker and which are from other parties.

It is important to keep a copy of the original GFE you are shown, to compare it to the final closing statement before you sign your loan documents.

Items checked as pre-paid (PFC) finance charges will affect the final APR of your mortgage.

Have each mortgage professional go over the Good Faith Estimates with you. Compare the items line by line. If you notice the cost of any item on a GFE significantly higher or lower than that of the same item on other GFE's, ask the loan officer to explain the difference. Some dishonest loan officers might "low ball" their settlement costs to gain your business.

Sometimes the fees listed on the Good Faith Estimate can change before closing. Some reasons include-
your mortgage broker may have to submit your loan application to a different lender, either to get a better rate or because the underwriter at the first lender didn't approve your loan. Different lenders have different fees if your appraisal is sent to appraisal review by the lender, some lenders charge a fee for that you decide to use a different loan program or a different loan amount you close earlier or later in the month than estimated you decide to use a different home owner's insurance company, policy, or deductible amount
Generally, other fees may vary a little as they are estimates (such as courier fees, which will rise as more packages are sent), but they should be pretty close.

A good faith estimate can inform you of the some or all of the costs necessary to complete a real estate transaction, but unforeseen occurrences such as title, real estate or lender issues may arise through no fault of your mortgage broker. While your mortgage broker is responsible for giving you a good faith estimate, it is not the responsibility of your mortgage broker to guarantee THIRD PARTY COSTS.

It is important for borrowers to understand the good faith estimate because the fees listed are what they are being charged to close their loan transaction. Borrowers should have all fees explained to them by their loan officer and to challenge any fees they feel are unnecessary.

Understand that a good faith estimate (GFE) is just that, only an estimate. Your costs at closing can vary from the amount on the GFE.

Good Faith Estimate documents with unrealistically low figures are a common tactic used by less scrupulous mortgage companies to "bait and switch" borrowers by locking them into a loan process with the promise of abnormally low rates and fees, only to change the deal at the last moment, often at the closing table itself.

Source: http://www.brokeroutpost.com/reference/20138.htm
April, 2014