



The NCRA Position on HUD's RESPA Reform

The National Credit Reporting Association, Inc. (NCRA) conditionally supports the pursuit of the GMP concept as a means to bring greater efficiencies to the consumer in the acquisition of settlement services. However, we only support it specifically for settlement services needed to **close** a loan, not to **approve** a loan. Thus, NCRA supports the GMP as long as the credit report is required to be an additional service to the GMP, not included in it.

The credit report is required as the first step in the process of loan approval and has far too great an impact on the consumer, if done incorrectly, to be included in a package of services that are not even needed until after the credit report has been accessed and evaluated. The enticement for the cheapest possible solution to credit reporting services may, at first glance seem attractive, however, it is as full of pitfalls as the original problem HUD is trying to rectify. Giving the lender the ability to decide whether or not to include the credit report, and what type of credit report as part of the GMP does not provide consumers with the protection they deserve to make sure they obtain the appropriate credit review needed for the consumers specific circumstances.

The approval/closing distinction is truly unique to the credit report as it is the single document that determines the consumer's ability to obtain a mortgage and dictates the rate of interest and points the consumer will pay for that loan. The savings the proposed GMP is intended to bring consumers is minute compared to the cost of interest overcharges that could be in store for a consumer if the credit reporting process is not completed correctly. It could, in many cases, cost consumers more in overcharges of interest rates in a few months than the total cost of all other settlement services needed to close the loan. Further, it has the single greatest potential to require legitimate additional services that can elevate the cost exponentially, based on the specific contents of the consumer's credit history. No other settlement service has common and legitimate price swings of 100 to 1000 percent, which are easily understood by the consumer, and only obtained at his/her instructions. Unlike the more complex and less understood settlement services, a consumer can easily identify when credit findings are questionable and in need of verifying, correcting, and potentially re-scoring of the credit file for the purpose of having the loan approved. Often times, without these amended credit reports there would be no closing costs, as many loans would not be approved.

Additionally, there is a provision of the GMP that legalizes a new potential consumer abuse. This is possible with the provisions of "Safe Harbor" from scrutiny of RESPA Section 8. The proposed GMP could harm consumers by providing a "Safe Harbor" for lenders to pass operational costs, unrelated to the consumer's own transaction, directly to the consumer in the settlement service cost. This has been a historic problem specifically to credit and flood zone services, despite RESPA regulations that prohibit the practice. With an exemption of RESPA Section 8, the credit report could become a fertile ground for abuse, similar to what have already been documented by HUD in RESPA settlements with The First American Corp. and Transamerica Corp. in 2001.

The credit report as part of the GMP could significantly reduce the consumer's ability to obtain properly priced mortgage financing, causing the consumer to have a huge increase in the overall cost of the loan. A study released in December 2002, conducted by the Consumer Federation of America and The National Credit Reporting Association, Inc. reveals that the random mortgage applicant had an average (mean) range between the high and low credit score of 41 points. Applicants near the fringe of prime to sub-prime interest rates were found to have high and low scores differ by nearly 50 points. One in three applicants were found to be at great risk of credit report inaccuracies. Since most lender approval processes involve using the middle score of a tri-merged credit report, this translates into the potential requirement of additional services solely for the benefit of consumer's loan approval or for interest rate considerations.

Finally, credit reports as part of the GMP would end the mortgage credit reporting industry, as we currently know it. It will eliminate all competition that is not owned by one of the three major credit repositories, a large title companies, or even the lender itself. The old saying "you get what you pay for" should not be forgotten in this situation. When a consumer's file is found to have questionable data and is in need of some additional service, there should be no barriers to impede the access of that documentation. Considering the cost of this service is one of the least expensive in the entire mortgage process, the elimination of this unique marketplace of small, customer service focused credit reporting agencies and the value they provide will be a huge disservice to the pursuit of the American dream.

***"This is a summary of NCRA's Position on HUD's RESPA Reform Report, submitted to HUD.
For a full version of NCRA's position, please contact NCRA".***

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