



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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ADMINISTRATOR
OFFICE OF
INFORMATION AND
REGULATORY AFFAIRS

The Honorable John Weicher
Commissioner of the Department of Housing
and Urban Development
451 7th Street, S.W.
Room 9100
Washington, DC 20410

Dear Mr. Weicher:

On July 3, 2002, the Office of Management and Budget (OMB) completed review of a Department of Housing and Urban Development (HUD) proposed rule titled "RESPA—Improving the Process for Obtaining Mortgages" under Executive Order No. 12866. The rule was published on July 29, 2002. In order to increase consumer choice and consumer protections, the rule proposes three significant changes to the settlement procedures covered by RESPA, including (1) changes in the way in which lender payments to brokers are recorded and reported to consumers in order to reduce abuses, especially in the use of yield spread premiums to reduce settlement costs; (2) improvements in the Good Faith Estimate (GFE) settlement cost disclosure to make it more accurate, understandable, and user friendly for consumers shopping for mortgage/settlement providers; and (3) removal of regulatory barriers and provision of a safe harbor for "guaranteed" packages of settlement services, which will reduce costs and facilitate comparison shopping.

OMB considers this to be a very promising rulemaking. The proposed rule would significantly strengthen consumer protection and promote consumer choice, thereby creating market changes that ultimately benefit the borrower. Given the objectives of this rulemaking, it is important that HUD continues its work to improve and simplify the proposed forms. In addition, HUD should further strengthen the economic and regulatory flexibility analyses. Specifically:

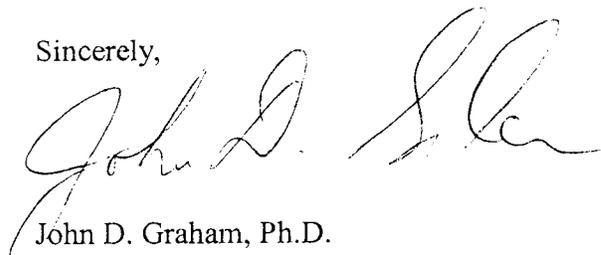
- Proposed forms: We appreciate HUD's expressed willingness to collaborate with other agencies, such as FTC, who have expressed an interest in improving the Good Faith Estimate (GFE) and the Guaranteed Mortgage Package Agreement (GMPA) forms by conducting focus group testing on the forms prior to the issuance of a final rule. This testing should focus on the understandability of the forms, especially as it relates to the borrower's understanding of broker compensation. HUD will also conduct consumer testing of the HUD-1 to help ensure that borrowers are able to crosswalk easily between the proposed GFE and

the HUD-1, and between the proposed GMPA and the HUD-1. This will allow borrowers to be able to identify any deviations between the proposed costs on the GFE (or guaranteed costs on the GMPA) and the final charges at settlement.

- Economic analysis: HUD conducted an extensive analysis of the economic impacts of the proposal to inform policy decisions at the proposed rule stage. HUD should continue to make improvements to the analysis in order to inform final decisions. In doing so, HUD should analyze the various options under consideration and base its analysis on the most reasonable assumptions and data that meet HUD's new information quality standards, explaining the basis for several key assumptions rather than presenting them as illustrative statements. Furthermore, we would urge the Department to analyze more than one option so that HUD policy officials will be better able to select the option that maximizes net benefits as required by E.O. 12866. My staff would be happy to work with you on the final economic analysis.
- Regulatory flexibility analysis: We recognize that the Economic Impact Analysis includes a substantial discussion of the impact on small business, and we encourage you to refine and build upon that analysis as we move to a final rule.

We have appreciated HUD's strong efforts to develop the proposal, and we look forward to HUD's strong collaboration with other interested agencies in finalizing the proposal. With these changes, the proposed RESPA revisions will offer the best possible choices to consumers, and allow them to make better decisions, thereby lowering settlement costs significantly and making the process of buying a home easier. OMB supports HUD's proposal of this rule, and we look forward to further enhancements in both the analysis and substance of the rule that may occur in response to public comment and interagency review.

Sincerely,



John D. Graham, Ph.D.
Administrator