



*This essay, submitted for a "Settling the score on settlement services" essay competition at Inman.com, explores whether pending changes to the U.S. Real Estate Settlement Procedures Act will actually benefit consumers.*

## **RESPA's Missed Opportunity**

By Anthony Farwell

"The core problem (with the closing process) is that too many Americans sign a mountain of documents they don't understand and pay thousands for services that they've probably never heard of," said Brian Montgomery in 2001, when he was the U.S. Department of Housing and Urban Development's assistant secretary for Housing and Federal Housing Commissioner.

He was commenting on an Urban Institute study that found significant disparities in closing costs even among borrowers with identical credit scores, loan terms and mortgages: "This report proves that the more informed you are, the less you pay. Our common goal should be to increase competition and transparency, and to help take the mystery out of buying a home."

There are positive things to be said for the Real Estate Settlement Procedures Act reforms that take effect Jan. 1. The new good-faith estimate will produce numbers that will be closer to the actual costs consumers will pay. Buyers will get a better picture of costs earlier in the transaction process.

But the new RESPA will leave consumers almost as clueless as they were when Montgomery so aptly described exactly what was wrong with RESPA eight years ago.

When it comes to the value consumers are getting for their closing dollars, there has been a wholesale lack of transparency for consumers and real estate professionals alike. The new RESPA gives consumers a peek at what they are really going to pay, but not enough to achieve the kind of information Montgomery envisioned.

The final regulations encourage lenders to supply short lists of service providers with whom they regularly work to guarantee their estimates within 10 percent of the final cost, even though those estimates may be higher than local rates. That does not foster genuine consumer choice.

Unless they are encouraged to do their homework, consumers will never know whether they are getting a good deal. Consumers must be educated, but the new rules don't do so. In this regard, the government's RESPA reform has failed.

What harm could come from encouraging consumers to do their own shopping for closing services -- services that might be more local and less expensive? Who could object to giving borrowers actual resources to facilitate their shopping activities and, as Montgomery put it, help take the mystery out of buying a home?

Throughout the conversion of real estate to the information economy, with a few exceptions, the government has played a limited role at best in fostering a more competitive and consumer-centric environment. The government's laid-back posture hasn't stopped consumers from embracing the power of the Internet to access information.

Once again, with RESPA reform, government has missed an opportunity to lead the way into the future, leaving it to consumers to discover the new empowering possibilities that await them in closing services.

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