Mortgage Loans

Understand the Terms of Your Loan Before You Sign...

This brochure can help you become familiar with basic mortgage loans, determine what terms are best for your situation, and identify issues you should be aware of before taking out a mortgage loan.

Mortgage loans are secured by a borrower's home. **This means that if you are unable to make the monthly payment for the mortgage, the lender can foreclose and take your home.** The amount of your loan will be determined by your home's value minus any liens or unpaid mortgage(s).

Standard home equity loans or second mortgages are closed-end loans, meaning the loan proceeds are usually made available in a lump sum. These loans can have a fixed term, a fixed interest rate, and fixed monthly payments, **or they can carry an adjustable interest rate that fluctuates with an index, such as the prime rate. Some adjustable-rate mortgages (ARMs) are "hybrid ARMs" which have a fixed rate for an initial period, then a fluctuating rate for the remainder of the loan.**

Home equity lines of credit are open-end loans or revolving credit lines. This means you can draw in amounts of money and at times when you have the need. The lender provides you with checks or other means to access your credit line. You may draw upon the account as long as you don't exceed your line of credit and are not in default. The amount of the monthly payment is based on the amount of credit you have used. Some lenders may charge a fee for the use of the line of credit. Home equity lines of credit can have a fixed or adjustable interest rate.

Can You Afford This Loan?

Before applying for a mortgage loan, make sure you have enough money to cover your monthly expenses. If you're spending less each month than you take home, and the additional debt load will not cut into the amount you've set aside for savings, only then should you consider taking on additional debt.

Once you have established the amount you want to borrow, take time to figure out what you can afford for a monthly payment without putting a strain on your budget.

If you are applying for an ARM, you will need to think carefully about your ability to make future monthly payments once the loan "resets," or adjusts to a new rate after the initial payment period.

Remember...

- Don't sign a contract until you have read it, your questions have been answered and all blank spaces have been filled in.
- Make sure the loan payment and terms you were quoted agree with the loan payment and terms stated in your loan agreement or note.
- You have the legal right to cancel a credit transaction on a refinanced or consolidation loan within three business days from the day the transaction is completed or closed.
- You have the right to change your mind on a home purchase mortgage loan at any time prior to the loan closing.
- You can lose your home if you don't make the payments on your mortgage or home equity loan.

Monthly Spending Plan

1 - Complete **Column ❶** based on your current financial situation.

Start with your monthly take-home pay. This is the amount you have left after taxes and other deductions have been made. Include regular, part-time and other sources of income.

Subtract the amount you need for savings, monthly expenses and monthly credit/loan payments.

The remaining balance is the amount you can afford to put toward the new mortgage payment or apply to debt repayment or savings.

2 - Complete **Column ❷** based on your new financial situation. This column will show your new mortgage payments and adjustments you've made to expenses and credit obligations

The remaining balance in **Column ❷** will indicate whether you can afford the new mortgage payment and change in projected expenses.

Monthly Spending Plan	❶ Current	❷ Revised
Monthly Take Home	$	$
Saving	- $	- $
Monthly Expenses:	- $	- $
Mortgage Payment/Rent	- $	- $
Utilities	- $	- $
Food / Groceries	- $	- $
Lunches / Dinners Out	- $	- $
Transportation	- $	- $
Insurance (Home, Car, Life)	- $	- $
Taxes	- $	- $
Clothing	- $	- $
Personal	- $	- $
Entertainment	- $	- $
Gifts & Contributions	- $	- $
Family Allowance	- $	- $
Child Care	- $	- $
Education	- $	- $
Credit Card Payments	- $	- $
Car Payments	- $	- $
Other	- $	- $
Remaining Balance	= $	= $

If you experience financial difficulty and have trouble making your mortgage payment

- Contact your lender as soon as possible. Explain your situation and the reason your payment will be late. The sooner you act, the more likely you are to have a positive outcome.
- Find out your options. These may include forbearance (when the lender postpones foreclosure to give the borrower more time to make payments), mortgage modification programs and help with selling your home before foreclosure occurs.
- Consider refinancing if it puts you in a better position than you are now. This involves evaluating all costs to refinance, including whether you'll have to pay a prepayment penalty.
- Contact an approved housing counseling agency. For a list of agencies approved by the U.S. Department of Housing and Urban Development, visit www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

  Another source of help is the Homeownership Preservation Foundation (www.995HOPE.org), which has counselors from HUD-certified agencies and sponsors a toll-free hotline (888-995-HOPE) dedicated to preventing foreclosures.
- Watch out for scams. Be leery of "foreclosure specialists" who offer to assist you in stopping or preventing foreclosure.
- Stay in your home for the time being. You may not qualify for assistance if you abandon your property.

Know the Terms of Your Loan Before You Sign and Shop for the Best Deal When Borrowing For a Mortgage Loan.

Just because a lender is willing to make you a loan doesn't mean that it is the right loan for you. Take the time to know and understand all of the terms, conditions and costs of a loan before you sign the contract. Use the list below to review mortgage offers that you receive. Be sure to comparison shop and talk to more than one lender.

Adjustable Rate — An interest rate that changes over the life of the loan, resulting in possible changes in the monthly payments, loan term, and/or principal. Some plans have rate or payment limits, so your payment cannot go above a fixed amount.

(Yes No) ______%

How much can it change ______%

There are many different types of adjustable-rate mortgages (ARMs), including:

- A 2/28 loan (a 30-year loan with a fixed rate for the first two years and an adjustable rate for the remaining 28)
- Interest only loan (IO loan) in which you make interest only payments for a set time with no reduction in the principal loan balance
- Option ARM (or payment option ARM) which allows you to choose among several payment options each month during the first few years of the loan (could result in limited reduction of principal or possibly an increase in the loan balance) depending on the payment option you choose

Annual Percentage Rate (APR) — The cost of credit expressed as a percentage. This includes any finance charges and additional fees.

_______%

$________

Application Fee — A fee to cover the costs of processing the application, documentation and verification.

(Yes No) $________

Arbitration Clause — A provision in the contract that states that disputes will be handled through arbitration. Arbitration requires the borrower and lender to use a third-party to settle the dispute.

(Yes No) $________

Balloon Payment — A final, lump sum payment due at the end of the loan term.

(Yes No) $________

When due? ________

Broker Fee — A fee that can be charged directly to the borrower or financed in the loan; the fee may include compensation provided from the lender to the broker.

(Yes No) $__________

Closing Costs — Expenses to close the loan, such as legal fees, title search, appraisal fee, filing of the mortgage deed, points, and annual fees. Before closing your loan, the lender must provide you with a detailed list of your actual closing costs.

Attorney Fee $__________

Title Search $__________

Appraisal Fee $__________

Mortgage Deed Filing $__________

Annual Fee $__________

Other Fees $__________

Credit Insurance — Optional insurance that is designed to repay part or all of the debt if the borrower dies or becomes disabled. The cost of credit insurance coverage must be disclosed in writing. You are entitled to receive a copy of the certificate of insurance from the lender.

(Yes No) $__________

Finance Charge — The total dollar amount you pay to use credit.

$__________

Fixed Rate — An interest rate that does not change over the life of your loan. You make equal monthly payments of principal and interest until the debt is paid in full.

(Yes No) _________%

Monthly Payment Amount — The dollar amount due each month to repay the loan.

$__________

Prepayment Penalty — A fee that may be due if you pay off the loan early by refinancing or selling your home.

(Yes No) $__________

Loan Amount — The dollar amount of the credit that is provided to you. This includes any cash you receive, as well as the amounts you may pay to other creditors and fees paid by you or your lender.

$__________

Points — Finance charges paid at the beginning of a loan. One point equals one percent of the loan amount.

(Yes No) __________

Service Fee — A fee charged to process the monthly payment associated with the loan.

(Yes No) $ _________

For More Information:

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