

# Mortgage Loans

## Understand the Terms of Your Loan before You Sign

This brochure can help you determine what is best for your situation, become familiar with mortgage loan terms, and learn what is involved in the application process. To protect yourself, confirm that the company and individual helping you with your residential mortgage loan is authorized to conduct mortgage business in your state by checking NMLS Consumer Access at [www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org) or by contacting your state mortgage regulator. Contact information for your state mortgage regulator can be found at [www.aarmr.org/general-members.lasso](http://www.aarmr.org/general-members.lasso).

### Mortgage Loans

Mortgage loans are secured by a borrower's home. This means that if you are unable to make the monthly payment, the lender can foreclose and take your home. The amount you can borrow will be determined by your home's value minus any liens or unpaid mortgage(s) and your ability to repay. 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 variable rate for the remainder of the loan. A change in the rate would change the monthly payment amount to reflect the new interest rate.

### Standard Home Equity Loans or Second Mortgages

Standard home equity loans or second mortgages are closed-end loans, meaning the loan proceeds are usually made available in a lump sum and must be fully repaid by a specified date.

### Home Equity Lines of Credit

Home equity lines of credit are open-end loans or revolving credit lines. This means you can draw amounts of money when you have the need. You may draw upon the account as long as you do not exceed the credit limit 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. You should only consider taking on additional debt if you are spending less each month than you take home, and the additional debt load will not cut into the amount you have set aside for savings.
- 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. A good rule of thumb is to calculate what your payment would be at the maximum rate in order to determine your ability to repay the loan.
- 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.
- The federal regulator, the Consumer Financial Protection Bureau (CFPB), requires lenders to document a borrower's ability to repay the loan.

# Monthly Spending Plan

*Complete current column based on your current financial situation.*

- Start with your monthly take-home pay. This is how much you have left after taxes and other deductions.
- Subtract the amount you need monthly for your saving goals and expenses, including credit payments, housing and utilities.
- The remaining balance is the maximum you can afford to put toward the new mortgage payment or apply to debt repayment or saving.

*Complete revised column to make any necessary adjustments.*

- Use this column to show your new mortgage payment(s) and adjustments you have made to expenses and credit obligations.
- The remaining balance in this column will indicate whether you can afford the new mortgage payment and changes in projected expenses.

Monthly Spending Plan		
	Current	Revised
Monthly Take-Home Pay	\$	\$
Saving	\$	\$
<b>MONTHLY EXPENSES</b>		
Mortgage Payment/Rent	\$	\$
Utilities	\$	\$
Food	\$	\$
Transportation	\$	\$
Insurance (Home, Vehicle, Life)	\$	\$
Taxes	\$	\$
Clothing	\$	\$
Personal	\$	\$
Entertainment	\$	\$
Gifts & Contributions	\$	\$
Education	\$	\$
Credit Card Payments	\$	\$
Vehicle Payment(s)	\$	\$
Miscellaneous	\$	\$
Remaining Balance =	\$	\$

# Common Loan Terminology

**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.

**Annual Percentage Rate (APR)** – The cost of credit expressed as a yearly rate. This includes any finance charges and additional fees.

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

**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.

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

**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.

**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.

**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.

**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.

**Foreclosure** – When you do not make your mortgage payment and the lender takes legal action to repossess your home.

**Good Faith Estimate (GFE) or Loan Estimate** – A list of basic information about the terms of a mortgage loan that will help you compare offers, understand the real cost of the loan and make an informed decision. The lender or mortgage broker must provide the estimate within 3 business days of receiving your application. You cannot be charged any fees until you receive the estimate and indicate that you plan to take out the home loan. A credit report fee can be charged.

**Home Equity Loan** – Loan for a fixed amount of money that is secured by your home. You repay the loan with equal monthly payments over a fixed term just like your original mortgage. If you do not repay the loan as agreed, your lender can foreclose.

**Interest Rate** – Cost you will pay each year to borrow the money expressed as a percentage rate. It does not include fees or any other charges you may have to pay for the loan.

**Lender** – A lender can be a depository institution (such as a bank or credit union) or any other entity engaged in the business of making residential mortgage loans. Entities that are not depository institutions typically are required to be state licensed to engage in the business of making residential mortgage loans.

**Lien** – A legal claim on ownership of the house stemming from a debt.

**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.

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

**Mortgage Broker** – Someone who serves as a go-between. A mortgage broker does not lend money, but rather finds a lender for you.

**Mortgage Loan Originator** – An individual who takes a residential mortgage loan application or offers or negotiates terms of a residential mortgage loan. They must be licensed to work in your state and registered on the NMLS.

**Points** – Finance charges paid at the beginning of a loan that may reduce the interest rate. One point equals one percent of the loan amount.

**Prepayment Penalty** – A fee that may be due if you pay off the loan early by refinancing or selling your home. In today's market, most mortgages do not have prepayment penalty fees.

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

**Short Sale** – When a home is sold for less than the balance owed on the mortgage loan and the lender agrees to accept the proceeds of the sale instead of pursuing foreclosure.

## Use the List Below to Review Mortgage Offers that You Receive. Be Sure to Comparison Shop and Talk to More than One Lender.

Company Name of Lender 1: \_\_\_\_\_

Contact Name: \_\_\_\_\_

Phone Number: \_\_\_\_\_ Email: \_\_\_\_\_

Company Name of Lender 2: \_\_\_\_\_

Contact Name: \_\_\_\_\_

Phone Number: \_\_\_\_\_ Email: \_\_\_\_\_

	LENDER 1	LENDER 1	LENDER 2	LENDER 2
Fixed Rate	Yes/No	_____%	Yes/No	_____%
Adjustable Rate	Yes/No	_____% How much can it change? _____%	Yes/No	_____% How much can it change? _____%
Annual Percentage Rate (APR)		_____%		_____%
Application Fee	Yes/No	\$_____	Yes/No	\$_____
Arbitration Clause	Yes/No	\$_____	Yes/No	\$_____
Balloon Payment	Yes/No	\$_____ When due? _____	Yes/No	\$_____ When due? _____
Broker Fee	Yes/No	\$_____	Yes/No	\$_____
Closing Costs:				
Attorney Fee		\$_____		\$_____
Title Search		\$_____		\$_____
Appraisal Fee		\$_____		\$_____
Mortgage Deed Filing Fee		\$_____		\$_____
Annual Fee		\$_____		\$_____
Other Fees		\$_____		\$_____
Credit Insurance (optional)	Yes/No	\$_____	Yes/No	\$_____
Finance Charge		\$_____		\$_____
Monthly Payment Amount		\$_____		\$_____
Prepayment Penalty	Yes/No	\$_____	Yes/No	\$_____
Loan Amount		\$_____		\$_____
Points	Yes/No	_____	Yes/No	_____
Service Fee	Yes/No	\$_____	Yes/No	\$_____

## Federal Laws

Familiarize yourself with federal laws, especially the following ones.

**Equal Credit Opportunity Act** – prohibits discrimination related to credit because of gender, race, color, marital status, religion, national origin or age. It also prohibits discrimination related to credit based on the fact that you are receiving public assistance or that you have exercised your rights under the federal Consumer Credit Protection Act.

**Fair Credit Reporting Act** – gives consumers many rights, including the right to one free credit report each year from each of the three major consumer reporting agencies. It allows consumers to call one number to notify credit reporting agencies of identity theft. It also provides a process for consumers to dispute information in their credit reports that they believe is inaccurate or incomplete. It requires creditors to give consumers their credit reports and credit scores if a creditor used a credit score in denying them credit or taking other adverse action against them. It also requires creditors to provide consumers with their credit scores and related information in certain other circumstances.

**Fair Debt Collection Practices Act (FDCPA)** – prohibits debt collectors from using abusive, unfair, or deceptive practices to collect from you.

**Home Mortgage Disclosure Act (HMDA)** – requires many financial institutions to maintain, report, and publicly disclose information about mortgages.

**Real Estate Settlement Procedures Act (RESPA)** – ensures that consumers throughout the nation are provided with more helpful information about the cost of the mortgage settlement and protected from unnecessarily high settlement charges caused by certain abusive practices.

**Truth in Lending Act (TILA)** – requires that, before you sign the agreement, creditors give you written disclosure of important terms of the credit agreement, like the annual percentage rate (APR), finance charge, monthly payment amount, payment due dates, amount financed, length of the loan agreement, and any charges for late payment.

## For More Information on Federal Credit Regulations and Your Rights, Contact:

### **Consumer Financial Protection Bureau**

855-411-2372; 202-435-7000  
www.consumerfinance.gov

### **Federal Trade Commission**

877-FTC-HELP (382-4357)  
www.ftc.gov

### **Federal Deposit Insurance Corporation**

Consumer Response Center  
877.275.3342  
www.fdic.gov

### **Office of the Comptroller of the Currency**

Customer Assistance Group  
800.613.6743  
www.occ.treas.gov

### **American Association of Residential Mortgage Regulators (AARMR)**

202.521.3999  
www.aarmr.org

## State Laws

Your state's laws may provide you with additional rights. For more information, contact your state mortgage regulator (www.aarmr.org), local consumer protection agency (www.consumeraction.gov), or Attorney General's office (www.naag.org).

## Get a Copy of Your Credit Report

It's a good idea to check your credit report before you make a major purchase. You can get a free copy of your report from each of the three major reporting agencies every 12 months. To order, visit [www.annualcreditreport.com](http://www.annualcreditreport.com), call 1-877-322-8228, or complete the Annual Credit Report Request form at [www.annualcreditreport.com](http://www.annualcreditreport.com) and mail it to Annual Credit Report Request Service, P.O. Box 1-5281, Atlanta, GA 30347-5281.

## Remember...

- Do not 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.
- You have the legal right to cancel a credit transaction on a refinanced or consolidation loan within three business days of 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 do not make the payments on your mortgage or home equity loan.

## 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 will 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/fc/index.cfm](http://www.hud.gov/offices/hsg/sfh/hcc/fc/index.cfm)
- 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.

### For More Information:



**AFSA EDUCATION  
FOUNDATION**

*Brightening Your Financial Horizon*

**AFSA Education Foundation**  
919 18th Street, NW  
Washington, DC 20006  
Phone: 888-400-7577  
Website: [www.afsaef.org](http://www.afsaef.org)



**American Association of  
Residential Mortgage Regulators**  
1025 Thomas Jefferson Street, NW Suite 500 East  
Washington, DC 20007  
Phone: 202-521-3999  
Website: [www.aarmr.org](http://www.aarmr.org)

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This brochure provides general information on mortgage loans and is not intended to provide specific legal advice. Laws governing mortgage loans are subject to change. When in doubt as to existing law, consumers should seek additional information. Helpful resources include the state and federal mortgage regulators referenced on page 5, licensed mortgage professionals, and lawyers knowledgeable about mortgage lending law.