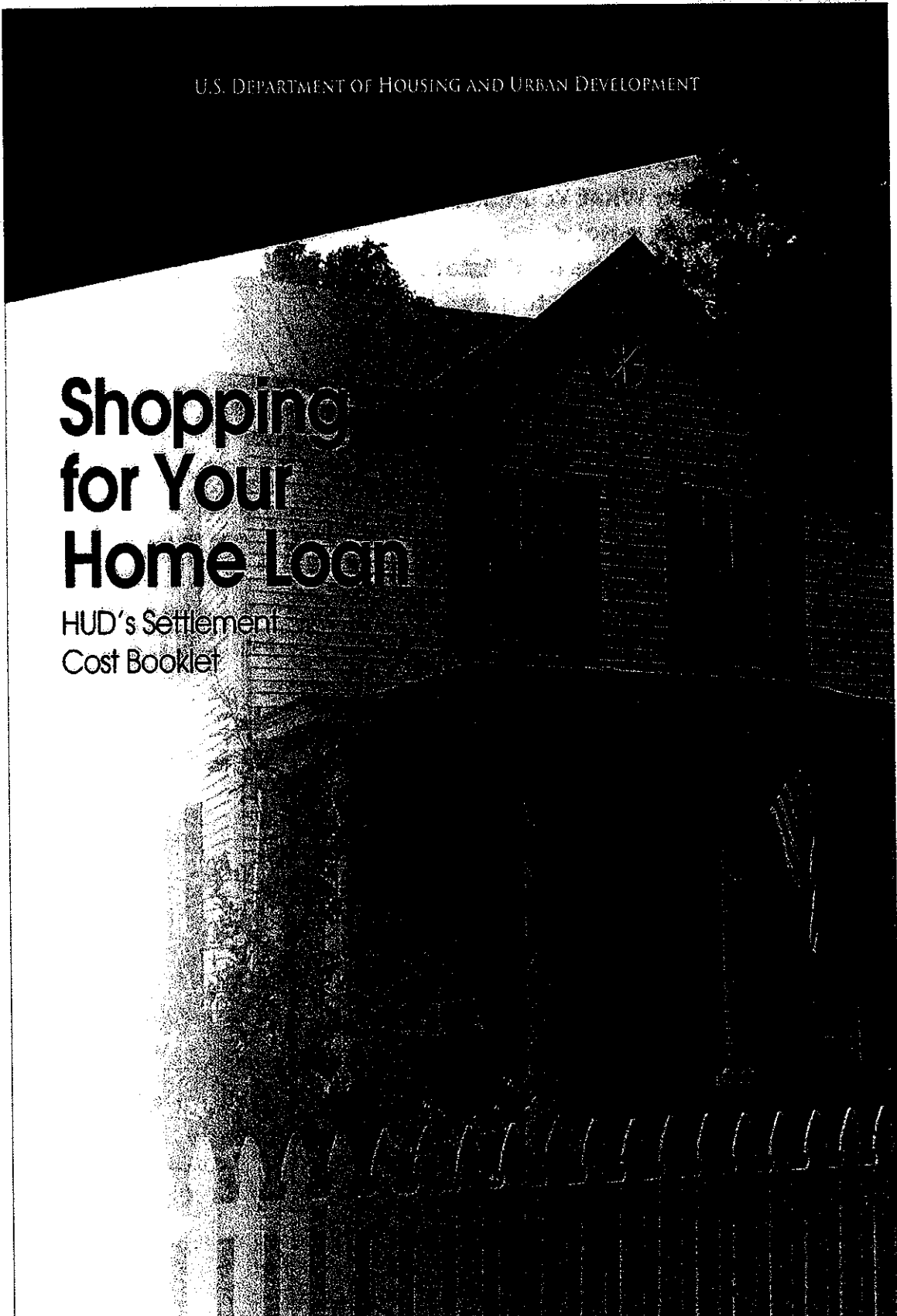


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Shopping for Your Home Loan

HUD's Settlement
Cost Booklet



I. Introduction

The *Real Estate Settlement Procedures Act (RESPA)* requires lenders and mortgage brokers to give you this booklet within three days of applying for a mortgage loan. RESPA is a federal law that helps protect consumers from unfair practices by settlement service providers during the home-buying and loan process.

Buying a home is an important financial decision that should be considered carefully. This booklet will help you become familiar with the various stages of the home-buying process, including deciding whether you are ready to buy a home, and providing factors to consider in determining how much you can afford to spend. You will learn about the sales agreement, how to use a *Good Faith Estimate* to shop for the best loan for you, required settlement services to close your loan, and the *HUD-1 Settlement Statement* that you will receive at closing.

This booklet will help you become familiar with how interest rates, points, balloon payments, and prepayment penalties can affect your monthly mortgage payments. In addition, there is important information about your loan after settlement, including how to resolve loan servicing problems with your lender, and steps you can take to avoid foreclosure. After you have purchased your home, this booklet will help you identify issues to consider before getting a home equity loan or refinancing your mortgage. Finally, contact information is provided to answer any questions you may have after reading this booklet. There is also a Glossary of Terms in the booklet's Appendix.

Using this booklet as your guide will help you avoid the pitfalls and help you achieve the joys of home ownership.

- What is your estimated monthly payment for the home? In addition to the monthly payment for principal and interest, you will have to pay for taxes and insurance and possibly homeowner association dues. If your down payment is less than 20%, your lender may require that you pay the added expense for mortgage insurance.
- What are the other costs of owning a home? Be realistic about the costs of owning a home like heating and cooling and other utilities. You will generally need to budget for repairs and routine maintenance of your home, especially if you buy an older home.
- What can you afford? Be confident that you can make the monthly payments. Have a financial plan and make a budget. Do you have a steady source of reliable income to pay your mortgage should your interest rate increase in the future? Consider how many long-term debts you have such as car or student loans, as well as credit card bills.
- Have you talked with a housing counseling agency? Housing counselors can be very helpful, especially for first-time home buyers. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search online at HUD's web site, or you can call HUD's interactive voice system. This contact information can be found in the Appendix of this booklet.

After answering the questions above, have you determined that buying a house is right for you? If so, congratulations! Let's start shopping for a house and a loan.

III. Determining What You Can Afford

To determine how much you can afford, you first need to know your monthly income. Second, you will need to calculate your monthly expenses which may include credit card bills, car payments, insurance premiums and all other debts. There is a worksheet in the Appendix ("**Determining What You Can Afford Worksheet**") that will help you calculate your income and expenses to help determine what you can afford.

Consider talking with a financial professional such as a housing counselor to help you determine what you can afford. Keeping your payments affordable is the best way to avoid foreclosure or other financial difficulties. While mortgage lenders will tell you how much they are willing to lend you (which is the loan amount you "qualify" for), you probably know your finances better than anyone, so you should determine how much you are willing and able to pay every month for your home.

❖ **Mortgage Clause**

The mortgage clause will provide whether or not your deposit will be refunded if the sale is cancelled should you be unable to get a mortgage loan. Your agreement could allow the purchase to be canceled if you cannot obtain mortgage financing at or below a specific interest rate or through a specific loan program.

❖ **Settlement Costs**

You can negotiate which settlement costs you will pay and which will be paid by the seller. The seller may contribute a lump sum amount or may agree to pay for specific items on your behalf.

❖ **Inspections**

Most buyers prefer to pay for the following inspections so that the inspector is working for them, not the seller. You may want to include in your sales agreement the ability to cancel the agreement or renegotiate the contract for a lower sales price or for the needed repairs if you are not satisfied with the inspection results.

- **Home Inspection:** You should have the home inspected. An inspection should determine the condition of the plumbing, heating, cooling and electrical systems. The structure should also be examined to assure it is sound and to determine the condition of the roof, siding, windows and doors. The lot should be graded away from the house so that water does not drain toward the house and into the basement. **You should be present to ask any questions.**
- **Pests:** Your lender may require a certificate from a qualified inspector stating that the home is free from termites and other pests and pest damage. Even if your lender does not require a pest inspection, you may want to obtain a pest inspection to ensure the property does not have termites or other pests.
- **Lead-Based Paint Hazards:** If you buy a home built before 1978, you have certain rights concerning lead-based paint and lead poisoning hazards. The seller or sales agent must give you the EPA pamphlet "Protect Your Family From Lead in Your Home" (or other EPA-approved lead hazard information). The seller must also disclose any known lead-based paint hazards in the property through a Lead Warning Statement and give you any relevant records or reports.
- **Other Environmental Concerns:** Your city or state may require sellers to disclose known environmental hazards such as leaking underground oil tanks, the presence of radon or asbestos, lead water pipes, and other such hazards. You may want to determine

Loan Originator

A loan originator is a lender or a mortgage broker.

- **Mortgage Brokers** Some companies, known as "mortgage brokers," offer to find you a mortgage lender willing to make you a loan. A mortgage broker may operate as an independent business and may not be operating as your "agent" or representative.
- **Lenders** A lender typically makes loans to borrowers directly. They receive payment through fees charged to you at settlement, payment from interest when you make your monthly mortgage payments and payments if they sell your loan or the servicing of your loan after settlement.

Note: Whether you apply for a loan with a lender or mortgage broker, you should receive *Good Faith Estimates* of settlement costs from multiple loan originators to make certain you get the best loan product at the lowest interest rate and lowest settlement costs.

Types of Loans and Programs

Shopping for your loan is probably the most important step in your home-buying process. Mortgage brokers and lenders have a wide variety of mortgage products. The type of loan product and your interest rate will not only influence your total settlement costs but will determine the amount of your monthly mortgage payment.

Government Programs

You may be eligible for a loan insured by the Federal Housing Administration (FHA), guaranteed by the Department of Veterans Affairs (VA) or offered by the Rural Housing Service (RHS). These programs usually require a smaller down payment. Ask your lender or mortgage broker about these programs. You should shop and compare quotes from different loan originators because each may offer different rates and loan terms.

If you are a first time homebuyer, ask your real estate agent/broker and loan originator about the availability of local or state programs such as reductions in transfer taxes, special income tax deductions or state homestead exemption discounts.

Types of Mortgages

Two of the most common types of mortgage loans are fixed-rate mortgages and adjustable rate mortgages. The interest rate on a fixed-rate mortgage will remain the same for the entire life of your loan while the interest rate on an adjustable rate mortgage (ARM) may adjust at regular intervals and may be tied to an economic index, such as a rate for Treasury securities. When the interest rate on an ARM adjusts it may cause your payment to increase.

decide to go forward with the loan process and are approved for the loan. It explains which charges can change before your settlement and which charges must remain the same. It contains a shopping chart allowing you to easily compare multiple mortgage loans and settlement costs, making it easier for you to shop for the best loan. The GFE may be provided by a mortgage broker or the lender. **Until they give you a GFE loan originators are only permitted to charge you for the cost of a credit report.**

In the loan application process, the loan originator will need your name, Social Security number, gross monthly income, property address, estimate of the value of the property, and the amount of the mortgage loan you want to determine the GFE. Your Social Security number is used to obtain a credit report showing your credit history, including past and present debts and the timeliness of repayment.

Your GFE Step-by-Step

Page 1 of the GFE

Now let's go through the GFE step-by-step. The top of page 1 of the GFE shows the property address, your name and contact information and your loan originator's contact information.

Important Dates

1. The interest rate for this GFE is available through . After this time, the interest rate, some of your loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available through .
3. After you lock your interest rate, you must go to settlement within days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least days before settlement.

The Important Dates section of the GFE includes key dates of which you should be aware.

Line 1 discloses the date and time the interest rate offer is good through.

Line 2 discloses the date "All Other Settlement Charges" is good through. This date must be open for at least 10 business days from the date the GFE was issued to allow you to shop for the best loan for you.

Line 3 discloses the interest rate lock time period, such as 30, 45 or 60 days, that the GFE was based on. **It does not mean that your interest rate is locked.**

Line 4 discloses the number of days prior to going to settlement that you must lock your interest rate.

Note: "Locking in" your rate and points at the time of application or during the processing of your loan will keep the interest rate and points from changing until the rate lock period expires.

Escrow Account Information

Some lenders require an escrow account to hold funds for paying property taxes or other property-related charges in addition to your monthly amount owed of \$ 1,173.00

Do we require you to have an escrow account for your loan?

No, you do not have an escrow account. You must pay these charges directly when due.

Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.

The GFE also includes a separate section referred to as "Escrow account information," which indicates whether or not an escrow account is required. This account holds funds needed to pay property taxes, homeowner's insurance, flood insurance (if required by your lender) or other property-related charges.

If the GFE specifies that you will have an escrow account, you will probably have to pay an initial amount at settlement to start the account and an additional amount with each month's regular payment. If you wish to pay your property taxes and insurance directly, some lenders will give you a higher interest rate or charge you a fee. **If your lender does not require an escrow account, you must pay these items directly when they are due.**

Summary of Your Settlement Charges

A	Your Adjusted Origination Charges (See page 2.)	\$3,750.00
B	Your Charges for All Other Settlement Services (See page 2.)	\$4,530.00
A + B	Total Estimated Settlement Charges	\$8,280.00

The final section on page 1 of the GFE contains the adjusted origination charges and the total estimated charges for other settlement services which are detailed on page 2. You should compare the "Total Estimated Settlement Charges" on several GFEs.

Page 2 of the GFE

The price of a home mortgage loan is stated in terms of an interest rate and settlement costs. Often, you can pay lower total settlement costs in exchange for a higher interest rate and vice versa. Ask your loan originator about different interest rates and settlement costs options.

Your Charges for All Other Settlement Services, Blocks 3 through 11

In addition to the charges to originate your loan, there are other charges for services that will be required to get your mortgage. For some of the services, the loan originator will choose the company that performs the service (Block 3). The loan originator usually permits you to select the settlement service provider for "Title services and lender's title insurance" (Block 4). "Owner's title insurance" is also disclosed (Block 5). Other required services that you may shop for are included in "Required services that you can shop for" (Block 6).

3. Required services that we select These charges are for services we require to complete your settlement. We will choose the providers of these services.		\$383.00
<i>Service</i>	<i>Charge</i>	
Appraisal	\$275.00	
Credit report	\$40.00	
Flood certification	\$12.00	
Tax service	\$56.00	
4. Title services and lender's title insurance This charge includes the services of a title or settlement agent, for example, and title insurance to protect the lender, if required.		\$1,275.00
5. Owner's title insurance You may purchase an owner's title insurance policy to protect your interest in the property.		\$175.00
6. Required services that you can shop for These charges are for other services that are required to complete your settlement. We can identify providers of these services or you can shop for them yourself. Our estimates for providing these services are below.		\$295.00
<i>Service</i>	<i>Charge</i>	
Survey	\$250.00	
Pest inspection	\$45.00	

Block 3 contains charges for required services for which the loan originator selects the settlement service provider. These are not "shoppable" services and often include items such as the property appraisal, credit report, flood certification, tax service and any required mortgage insurance.

Block 4 contains the charge for title services, the Lender's title insurance policy and the services of a title, settlement or escrow agent to conduct your settlement.

Block 5 contains the charge for an Owner's title insurance policy that protects your interests.

NOTE: Under RESPA, the seller may not require you, as a condition of the sale, to purchase title insurance from any particular title company.

Block 6 contains charges for required services for which you may shop for the provider. Some of these items may include a survey or pest inspection.

Page 3 of the GFE

Page 3 of the GFE contains important instructions and information that will help you shop for the best loan for you.

Understanding which charges can change at settlement

These charges cannot increase at settlement.	The total of these charges can increase up to 10% at settlement:	These charges can change at settlement:
<ul style="list-style-type: none"> ■ Our origination charge ■ Your credit or charge (points) for the specific interest rate chosen (after you lock in your interest rate) ■ Your adjusted origination charges (after you lock in your interest rate) ■ Transfer taxes 	<ul style="list-style-type: none"> ■ Required services that we select ■ Title services and lender's title insurance (if we select them or you use companies we identify) ■ Owner's title insurance (if you use companies we identify) ■ Required services that you can shop for (if you use companies we identify) ■ Government recording charges 	<ul style="list-style-type: none"> ■ Required services that you can shop for (if you do not use companies we identify) ■ Title services and lender's title insurance (if you do not use companies we identify) ■ Owner's title insurance (if you do not use companies we identify) ■ Initial deposit for your escrow account ■ Daily interest charges ■ Homeowner's insurance

There are three different categories of charges that you will pay at closing: charges that cannot increase at settlement; charges that cannot increase in total more than 10%; and charges that can increase at settlement. You can use this as a guide to understand which charges can or cannot change. Compare your GFE to the actual charges listed on the *HUD-1 Settlement Statement* to ensure that your lender is not charging you more than permitted.

Written list of settlement service providers

A written list will be given to you with your GFE that includes all settlement services that you are required to have, and that you are allowed to shop for. You may select a provider from this list or you can choose your own qualified provider. If you choose a name from the written list provided, that charge is within the 10% tolerance category. If you select your own service provider, the 10% tolerance will not apply.

Even though you may find a better deal by selecting your own provider, you should choose the provider carefully as those charges could increase at settlement. If your loan originator fails to provide a list of settlement service providers, the 10% tolerance automatically applies.

You can use this chart to compare similar loans offered by different loan originators. Fill in each column with the information shown in the "Summary of your loan" section from the first page of all the GFEs you receive. Compare each offer and select the best loan for you.

After You Choose the Best Loan for You

After comparing several GFEs, select the best loan for you and notify the loan originator that you would like to proceed with the loan. Keep your *Good Faith Estimate* so you can compare it with the final settlement costs stated on your *HUD-1 Settlement Statement*. Ask the lender and settlement agent if there are any changes in fees between your GFE and your HUD-1 Settlement Statement. Some charges cannot be increased, and your lender must reimburse you if those charges were illegally increased.

New Home Purchases

If you are purchasing a new home that is being built or has not been built yet, your GFE could change. If the GFE can change, the loan originator must notify you that the GFE may be revised at any time up to 60 days before settlement. If you get a revised GFE, look at it to determine if the loan and settlement costs it discloses are the best for you.

Changed Circumstances

If there are changes involving your credit, the loan amount, the property value, or other information that was relied on in issuing the original GFE, a revised GFE may be issued. Only the charges affected by the changed circumstance may be revised.

VII. Shopping for Other Settlement Services

There are other settlement services that the lender will require for your loan. You may be able to shop for these services or you may choose providers identified on the written list you receive from the loan originator. If you select providers on the list, the charges shown on the GFE must be within the 10% tolerance. Even though selecting a settlement service provider that is not on the list nullifies the 10% tolerance, you still may be able to find a better deal by shopping and selecting a provider yourself. However, remember that those charges could increase at settlement.

Title Services and Settlement Agent

When you purchase your home, you receive "title" to the home. Certain title services will be required by your lender to protect against liens or claims on the property. Title services include the title search, examination of the title, preparation of a commitment to insure, conducting the settlement, and all administration and

VIII. Your Settlement and HUD-1

You have determined what you can afford, found the right house and shopped for the best loan for you. After all the hard work, it is time to go to settlement, but don't forget to bring your GFE to compare with the charges listed on the *HUD-1 Settlement Statement*. It is a good idea to review your HUD-1 before your settlement. Let your settlement agent and lender know that you want to receive a completed HUD-1 at least one day prior to your settlement.

Settlement

Your settlement may be conducted by your lender or your title insurance company, an escrow company, your attorney or the seller's attorney. Regardless of who performs the settlement, there will be many important documents that you will need to sign. Make sure you carefully read and understand all the documents before you sign them. Do not be afraid to ask the lender any questions you have about your loan documents.

HUD-1 Settlement Statement

The *HUD-1 Settlement Statement* (HUD-1) is a form that lists all charges and credits to the borrower and seller in a transaction. You have the right under RESPA to inspect the *HUD-1 Settlement Statement* before settlement occurs. When you receive a copy of the HUD-1, compare it to your GFE. Ask the lender questions about any changes in fees between your GFE and the HUD-1. Your lender must reimburse you if a closing cost tolerance was violated.

700 Series, Total Real Estate Broker Fees

700. Total Real Estate Broker Fees		Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement
Division of commission (line 700) as follows:			
701. \$ 6,000.00	to: ABC Real Estate Co.		
702. \$ 6,000.00	to: XYZ Real Estate Co.		
703. Commission paid at settlement			\$12,000.00

This section of the settlement statement shows the commissions paid to the real estate agents. There are no corresponding lines on the GFE because the lender does not require this service before you get your loan.

800 Series, Items Payable in Connection with Loan

800. Items Payable in Connection with Loan			
801. Our origination charge	includes origination point(s) (1% or \$2,000)	\$ 6,750.00 (from GFE #1)	
802. Your credit or charge (points) for the specific interest rate chosen		\$ 3,000.00 (from GFE #2)	
803. Your adjusted origination charges		(from GFE #A)	\$3,750.00

Line 801, "Our origination charge," lists the lender's and mortgage broker's charge for getting you the loan and references GFE Block 1. In this example, Line 801 designates an origination point of \$2,000 for possible tax deductibility.

Line 802 lists either the charge for the interest rate (points) or a credit and references GFE Block 2.

Line 803 lists "Your adjusted origination charges." This amount is the sum of Lines 801 and 802 and references Block A on the GFE.

804. Appraisal fee to: Appraisal Company	(from GFE #3)	\$325.00
805. Credit report to: Credit Report Company	(from GFE #3)	\$40.00
806. Tax service to: Tax Service Company	(from GFE #3)	\$76.00
807. Flood certification to: Flood Certification Company	(from GFE #3)	\$12.00
808.		

Line 804 is the charge for the appraisal report prepared by an appraiser.

Line 805 is the fee for a credit report showing your credit history.

Line 806 is the fee paid to a tax service provider for information on the real estate property taxes.

1000 Series, Reserves Deposited with Lender

1000: Reserves Deposited with Lender				
1001. Initial deposit for your escrow account			(from GFE #9)	\$350.00
1002. Homeowner's Insurance	1	months @ \$ 50.00	per month	\$ 50.00
1003. Mortgage Insurance	1	months @ \$ 100.00	per month	\$ 100.00
1004. Property Taxes	2	months @ \$ 200.00	per month	\$ 400.00
1005.		months @ \$	per month	\$
1006.		months @ \$	per month	\$
1007. Aggregate Adjustment				-\$ 200.00

This series of the HUD-1 lists the amounts collected by the lender to be placed in your escrow account for future payments of items such as homeowner's insurance, mortgage insurance and property taxes. Line 1007 is an adjustment to make sure lenders are only collecting the maximum amount allowed by law. In this example, even though the first year's homeowner's insurance premium has already been paid, the lender has started escrowing money to pay the next bill.

1100 Series, Title Charges

1100: Title Charges				
1101. Title services and lender's title insurance			(from GFE #4)	\$1,275.00
1102. Settlement or closing fee to 3rd Party Closing Company		\$ 100.00		\$125.00
1103. Owner's title insurance to Title Town USA			(from GFE #5)	\$175.00
1104. Lender's title insurance		\$ 725.00		
1105. Lender's title policy limit \$ 200,000.00				
1106. Owner's title policy limit \$ 210,000.00				
1107. Agent's portion of the total title insurance premium to Title Town USA		\$ 720.00		
1108. Underwriter's portion of the total title insurance premium to Underwriter		\$ 180.00		

Line 1101 lists the charge for all title services and the lender's title insurance policy. Title services includes any service involved with providing title insurance, such as title examination, preparing the title commitment, clearing the title to the property, preparing and issuing the title policies and conducting the settlement. These charges correspond to GFE Block 4.

Line 1102 is the amount of the settlement or closing fee if performed by a company different from the one providing title insurance. This charge is part of the charge listed in Line 1101.

Line 1103 lists the charge for the Owner's title insurance policy, if you decided to buy one. It corresponds to Block 5 of the GFE.

Lines 1204 and 1205 itemize the charges for transfer taxes listed in Line 1203.

Line 1206 can be used to list additional items related to recording or transfer charges.

In our example, the government recording charge that appeared in block 7 of the GFE was \$50.00 which is illustrated in the column on line 1201 on the HUD-1.

Series 1300, Additional Settlement Charges

1300. Additional Settlement Charges		
1301. Required services that you can shop for	(from GFE #5)	\$295.00
1302. Survey to Measure-It	\$ 250.00	
1303. Pest Inspection to Rid-A-Bug	\$ 45.00	
1304. Home Warranty to Home Warranty Company		\$300.00
1305.		
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		\$8,044.00

Line 1301 is the total of lender required services for which you chose the provider (other than title services). These services are itemized in the lines below 1301. These charges are listed in Block 6 of your GFE.

In addition to services the loan originator required there may be additional services that you chose. In our example, Line 1304 lists a homeowner's warranty to provide protection for your home's mechanical systems and appliances. A charge for a pest inspection or survey will appear as a line item in the 1300 series of the HUD-1, if the borrower elected to obtain an inspection or survey that was not a condition of the loan or required by the lender.

Line 1400 is the total of all charges listed in page 2 on the HUD-1 for the seller and you, the buyer. These totals are also listed on page 1 of the HUD-1. Your charges appear in Section J, Summary of the Borrower's Transaction, on Line 103. The seller's charges are listed in Section J, Summary of Seller's Transaction, on Line 502.

Page 3 of the HUD-1

The third page of the HUD-1 is made up of two sections: the Comparison Chart and the Loan Terms. The Comparison Chart will help you compare the charges disclosed on your GFE and the actual charges listed on page 2 of the HUD-1. The Loan Terms section can assure you that the loan you applied for is the loan you received at settlement. This section should compare with the "Summary of Your Loan" on page 1 of the GFE.

Loan Terms

Loan Terms	
Your initial loan amount is	\$ 200,000.00
Your loan term is	30 years
Your initial interest rate is	5.0 %
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	\$ 1,173.00 includes <input checked="" type="checkbox"/> Principal <input checked="" type="checkbox"/> Interest <input checked="" type="checkbox"/> Mortgage insurance
Can your interest rate rise?	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes, it can rise to a maximum of 10.0 %. The first change will be on 6/1/2010 and can change again every 6 months after 6/1/2010. Every change date, your interest rate can increase or decrease by 1.0 %. Over the life of the loan, your interest rate is guaranteed to never be lower than 5.0 % or higher than 10.0 %.
Even if you make payments on time, can your loan balance rise?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of \$
Even if you make payments on time, can your monthly amount owed for principal, interest, and mortgage insurance rise?	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes, the first increase can be on 6/1/2010 and the monthly amount owed can rise to \$ 1,290.00. The maximum it can ever rise to is \$ 1,842.00
Does your loan have a prepayment penalty?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes, your maximum prepayment penalty is \$
Does your loan have a balloon payment?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes, you have a balloon payment of \$ due in years on
Total monthly amount owed including escrow account payments	<input type="checkbox"/> You do not have a monthly escrow payment for items, such as property taxes and homeowner's insurance. You must pay these items directly yourself. <input checked="" type="checkbox"/> You have an additional monthly escrow payment of \$ 350.00 that results in a total initial monthly amount owed of \$ 1,523.00. This includes principal, interest, any mortgage insurance and any items checked below: <input checked="" type="checkbox"/> Property taxes <input checked="" type="checkbox"/> Homeowner's insurance <input type="checkbox"/> Flood insurance <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Note: If you have any questions about the Settlement Charges and Loan Terms listed on this form, please contact your lender.	

The last section on the HUD-1 clearly sets forth the terms of your loan, including the loan amount, your interest rate and your monthly payments. It will also disclose the monthly escrow payment account information. It lets you know whether your interest rate, your loan balance or your monthly payments can increase and whether your loan has a prepayment penalty or a balloon payment. Look at this information carefully and make sure that you are getting the loan and the terms that were set forth in your GFE. **If the loan terms do not match the loan terms on your GFE or if you have questions, contact your lender before signing any documents.**

required to use a company that was affiliated with your real estate agent, builder, or loan originator, if your loan servicer fails to timely pay your taxes and insurance premiums; or if your loan servicer does not respond to a QWR about the servicing of your loan, you may wish to file a complaint with HUD's Office of RESPA. You should describe what you believe to be a violation and identify each violator by name, address and phone number. You should also include your own contact information for any follow-up questions. You can find out how to file a complaint at the RESPA website or by contacting the RESPA Office. The address is located in the Appendix.

Avoiding Foreclosure

Once you move into your new home, you will want to make sure that you do nothing that could threaten you with the loss of your home. Make all payments on time. If you are having a dispute with the servicer, do not stop making your full payment each month. Consider carefully before putting another mortgage or lien on your home.

If you do not make your monthly mortgage payments, you will be in default on your loan. Foreclosure is a legal process in which a mortgaged property is sold to pay off the defaulted loan. If you find yourself facing foreclosure, there are steps that you should take. Contact your lender and be prepared to provide financial information. There may be a workout plan available to help you keep your home. There are also HUD-approved housing counseling agencies that are available to provide you information on and assistance in avoiding foreclosure. HUD's web site provides homeowners this information as well as other guidance in its "Guide to Avoiding Foreclosure" which can be found at <http://www.hud.gov/foreclosure/>.

Beware of scams! Watch out for equity skimming when a buyer offers to repay the mortgage or sell the property if you sign over the deed and move out. Be aware that there are phony counseling agencies that charge you a fee for the same services you can usually receive at no charge. Be sure to use only HUD-approved counseling agencies. Most importantly, NEVER sign anything that you have not read or do not understand.

X. Home Equity and Refinances

Home Equity Loan/Line of Credit

As you make payments on your mortgage loan or make improvements to your property, or if property values in your neighborhood increase, the equity in your home may increase. Home equity is the difference between your home's fair market value and the outstanding balances of all the loans and other liens on your property.

If you have equity in your property, you may be able to use it as collateral for a home equity loan or a home equity line of credit, often called a HELOC.

On the positive side, if you shop carefully for your refinance, you could lower your monthly payments by getting a lower interest rate. Be wary of unsolicited refinancing offers that you may get in the mail or through e-mail. Although not all of these offers are deceptive, there are many unscrupulous loan originators who use the offers to find unsuspecting home owners. Some of these unscrupulous loan originators will even use the HUD and FHA logos in an attempt to make their solicitations appear legitimate. If you have any doubts about whether a communication has actually been sent by HUD, use the information in the Appendix to contact HUD.

Statement of Reasons for Denial

If your application is denied, ECOA requires your lender or mortgage broker to give you a statement of the specific reasons why it denied your application or tell you how you can obtain such a statement. The notice will also tell you which federal agency regulates the lender that denied your application so you can contact the agency if you believe it has illegally discriminated against you.

Obtaining Your Credit Report

The Fair Credit Reporting Act ("FCRA") requires a lender or mortgage broker that denies your loan application to tell you whether it based its decision on information contained in your credit report. If that information was a reason for the denial, the notice will tell you where you can get a free copy of the credit report. You have the right to dispute the accuracy or completeness of any information in your credit report. If you dispute any information, the credit reporting agency that prepared the report must investigate free of charge and notify you of the results of the investigation.

Obtaining Your Appraisal

The lender needs to know if the value of your home is enough to secure the loan. To get this information, the lender typically hires an appraiser, who gives a professional opinion about the value of your home. ECOA requires your lender or mortgage broker to tell you that you have a right to get a copy of the appraisal report. The notice will also tell you how and when you can ask for a copy.

HOEPA

If you ever decide to refinance your loan, or if you apply for a home equity installment loan, you should know about the Home Ownership and Equity Protection Act of 1994 (HOEPA). This law addresses certain unfair practices and establishes requirements for certain loans with high rates and fees. You can find out more information by contacting the Federal Trade Commission at the address and phone number listed in the Appendix.

CONTACT INFORMATION

U.S. Department of Housing and Urban Development

451 7th Street, SW
Washington, DC 20410
202-708-1112
<http://www.hud.gov>

HUD's Office of RESPA and Interstate Land Sales

202-708-0502
<http://www.hud.gov/respa>

HUD Housing Counselors

1-800-569-4287 (Interactive system)
<http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>

HUD Foreclosure Prevention Information

<http://www.hud.gov/foreclosure>

Buying a HUD Home

<http://www.hud.gov/offices/hsg/sfh/reo/reobuyfaq.cfm>

FHA- Resource Center

1-800-CALL FHA (800-225-5342)
<http://www.hud.gov/offices/hsg/sfh/fhresourcectr.cfm>

Housing Discrimination Issues

Office of Fair Housing and Equal Opportunity
(See HUD address above)

1-202-708-1112

1-800-800-3088

http://portal.hud.gov/portal/page/portal/HUD/program_offices/fair_housing_equal_opp

To file a Housing Discrimination Complaint:

<http://www.hud.gov/offices/fheo/online-complaint.cfm>

GLOSSARY of TERMS

Appraiser: one who is trained and educated in the methods of determining the value of property (appraised value). You will pay a fee for an appraisal report containing an opinion as to the value of your property and the reasoning leading to this opinion.

Credit report fee: this fee covers the cost of a credit report which shows your credit history. The lender uses the information in a credit report to assess your credit worthiness.

Default: the inability to pay monthly mortgage payments in a timely manner or to otherwise meet the mortgage terms.

Delinquency: failure of a borrower to make timely mortgage payments under a loan agreement.

Down Payment: the portion of a home's purchase price that is paid in cash and is not part of the mortgage loan.

Earnest Money Deposit: money you will put down to show that you are serious about purchasing the home. It often becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or may be forfeited if you do not follow through with the deal.

Escrow Account: an impound account in which a portion of your monthly mortgage payment is deposited to cover annual charges for homeowner's insurance, mortgage insurance (if applicable), and property taxes.

Escrow Agent: a person or entity holding documents and funds in a transfer of real property, acting for both parties pursuant to instructions. Typically the agent is a person (often an attorney), escrow company or title company, depending on local practices.

Flood Certification Fee: a fee for the assessment of your property to determine if it is located in a flood prone area.

Foreclosure: a legal process in which mortgaged property is sold to pay the loan of the defaulting borrowers.

Good Faith Estimate (GFE): an estimate of the settlement charges you are likely to incur; it also contains other information about the loan.

Government Recording and Transfer Charges: fees for legally recording your deed and mortgage. These fees may be paid by you or by the seller depending upon the terms of the sales agreement.

Pest Inspection: an inspection for termites or other pest infestations of your home. This inspection is frequently required by your lender.

Point(s): amount of money paid to reduce the interest rate on a loan. A point is usually equal to 1% of the loan amount.

Pre-paid items: lenders often require the prepayment of items such as insurance premiums for private mortgage insurance, homeowner's insurance, and real estate taxes.

Prepayment Penalty: a fee charged if the mortgage loan is paid before the scheduled due date.

Private Mortgage Insurance (PMI): insurance that protects your lender if you default on your loan. With conventional loans, mortgage insurance is usually required if you do not make a down payment of at least 20% of your home's appraised value. Your lender may require payment of your first year's mortgage insurance premium or a lump sum premium that covers the life of the loan in advance at settlement. The same insurance protection on an FHA loan is called Mortgage Insurance Premium (MIP).

Recording and Transfer Charges: these charges include fees paid to the local government for filing official records of a real-estate transaction.

Sales Agreement: the contract signed by a buyer and the seller stating the terms and conditions under which a property will be sold. It may also be called an "Agreement of Sale" or "Purchase Contract."

Settlement: the time at which the property is formally sold and transferred from the seller to the buyer. It is at this time that the borrower takes on the loan obligation, pays all closing costs and receives title from the seller.

Settlement/Closing Agent: in some states, a settlement agent, or closing agent, handles the real estate transaction when you buy or sell a home. It may also be an attorney or a title agent. He or she oversees all legal documents, fee payments, and other details of transferring the property to ensure that the conditions of the contract have been met and appropriate real estate taxes have been paid.

Settlement Costs/Closing Costs: the customary costs above and beyond the sales price of the property that must be paid to cover the transfer of ownership at closing; these costs generally vary by geographic location and are typically detailed to the borrower at the time the GFE is given.

Survey Fee: a fee for obtaining a drawing of your property showing the location of the lot, any structures, and any encroachments. The survey fee is usually paid by the borrower.

Types of Mortgage Loan Products

Adjustable Rate Mortgage (ARM): a mortgage loan or Deed of Trust which allows the lender to periodically adjust the interest rate in accordance with a specified index.

Balloon Mortgage: a balloon payment is due on a mortgage that usually offers a low monthly payment for an initial period of time. After that period of time elapses, the balance must be paid by the borrower or the amount must be refinanced. The large sum payable at the end of the loan term is called the "balloon payment."

Construction Loan: a short-term, interim loan for financing the cost of construction; the lender advances funds to the builder at periodic interval as work progresses.

Conventional Loan: a private sector loan which is not guaranteed or insured by the U.S. government.

Fixed-Rate Mortgage: a mortgage with an interest rate that does not change over the life of the loan, and as a result, monthly payments for principal and interest do not change.

Hybrid Arms: these loans are a mix or a hybrid of a fixed-rate period and an adjustable-rate period. For example, a 3/1 ARM will have a fixed interest rate for the first three years and then will adjust annually until the loan is paid off. The first number tells you how long the fixed interest-rate period will be and the second number tells you how often it will adjust after the initial period.

Interest Only ARMs: an interest-only (I-O) ARM payment plan allows you to pay only the interest for a specific number of years, typically between 3 and 10 years. This allows you to have smaller payments for a period of time. After that, your monthly payments will increase, even if the interest rate stays the same, because you must start paying back the principal as well as the interest each month.

L. Settlement Charges				Buyer's Portion	Seller's Portion
700. Total Real Estate Broker Fees					
Division of commission (line 700) as follows:					
701. \$	to				
702. \$	to				
703. Commission paid at settlement					
704.					
800. Items Payable in Connection with Loan					
801. Origination charge	\$		(from GFE #1)		
802. Your credit or charge (points) for the specific interest rate chosen	\$		(from GFE #2)		
803. Your adjusted origination charges			(from GFE #A)		
804. Appraisal fee to			(from GFE #3)		
805. Credit report to			(from GFE #5)		
806. Tax service to			(from GFE #3)		
807. Flood certification to			(from GFE #5)		
808.					
809.					
810.					
811.					
900. Items Incurred by Lender to be Paid in Advance					
901. Daily interest charges from	to	@ \$	/day	(from GFE #10)	
902. Mortgage insurance premium for	months to			(from GFE #5)	
903. Homeowner's insurance for	years to			(from GFE #11)	
904.					
1000. Reserves Deposited with Lender					
1001. Initial deposit for your escrow account				(from GFE #6)	
1002. Homeowner's insurance	months @ \$	per month \$			
1003. Mortgage insurance	months @ \$	per month \$			
1004. Property taxes	months @ \$	per month \$			
1005.	months @ \$	per month \$			
1006.	months @ \$	per month \$			
1007. Aggregate Adjustment					
1100. Title Charges					
1101. Title services and lender's title insurance				(from GFE #4)	
1102. Settlement or closing fee	\$				
1103. Owner's title insurance				(from GFE #5)	
1104. Lender's title insurance	\$				
1105. Lender's title policy limit \$					
1106. Owner's title policy limit \$					
1107. Agent's portion of the total title insurance premium to	\$				
1108. Underwriter's portion of the total title insurance premium to	\$				
1109.					
1110.					
1111.					
1200. Government Recording and Transfer Charges					
1201. Government recording charges				(from GFE #7)	
1202. Deed \$	Mortgage \$	Release \$			
1203. Transfer taxes				(from GFE #8)	
1204. City/County tax/stamps	Deed \$	Mortgage \$			
1205. State tax/stamps	Deed \$	Mortgage \$			
1206.					
1300. Additional Settlement Charges					
1301. Required services that you can shop for				(from GFE #8)	
1302.	\$				
1303.	\$				
1304.					
1305.					
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)					

THE DO LIST

- Shop for your loan.
- Interview real estate agents, mortgage brokers, lenders and other settlement service providers to find the best professionals for your loan and settlement needs.
- Be sure to read and understand everything before you sign anything.
- Accurately report your debts.
- Be honest about all sources of funds you will use to purchase your home.
- Be upfront about any credit problems you have or have had in the past.
- Be wary of unsolicited loan or refinance offers that you receive in the mail or through e-mail.
- Always pay your mortgage payment on time, even if you are having a dispute with your loan servicer.
- If you are having problems paying your mortgage, contact your loan servicer immediately.

THE DON'T LIST

- Do not sign blank documents.
- Do not overstate your income.
- Do not overstate your length of employment.
- Do not overstate your assets.
- Do not change your income tax returns.
- Do not list fake co-borrowers on your loan application.
- Do not provide false documentation or permit someone to provide false documents about you.