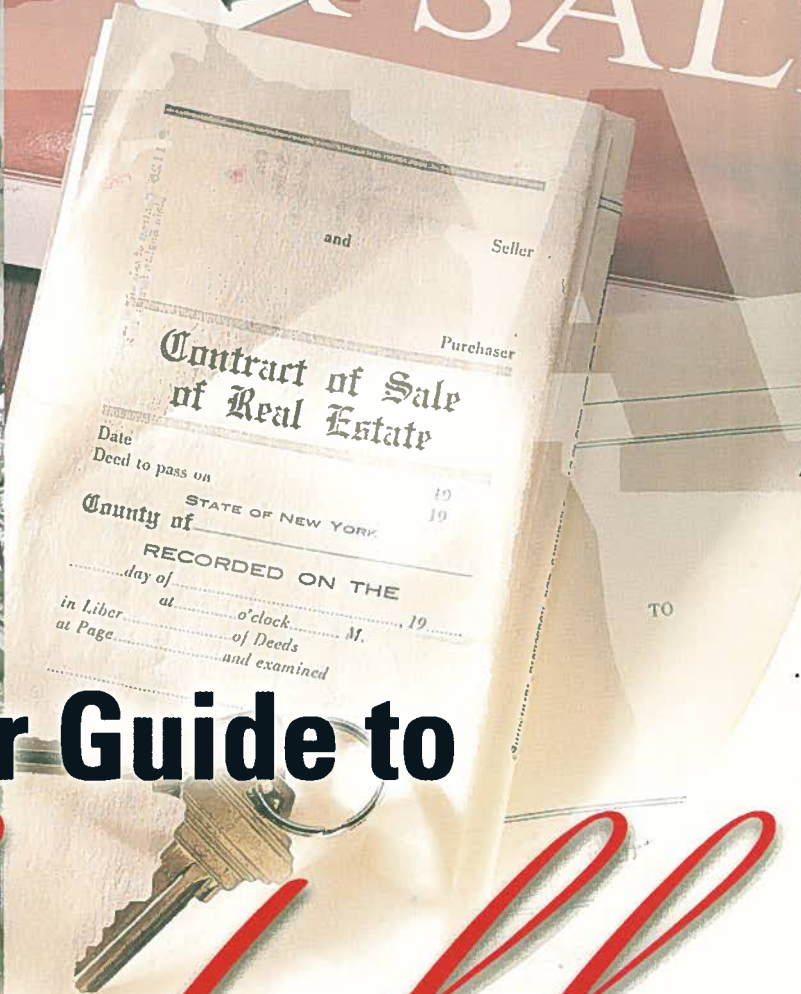




HOMES  
**SOLD**  
FOR SALE



## Consumer Guide to

# Affordable Housing

presented by  
**Michigan Mortgage Lenders Association**





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On behalf of the Michigan Mortgage Lenders Association (MMLA) Consumer Education Committee, we would like to take a moment to thank you for spending time with us and learning more about the home-buying process. We are committed and dedicated to the real estate finance profession and want to make a positive impact on the lives of as many residents as possible in the state of Michigan. We hope that you find the content of this Consumer Guide to be helpful as you begin the process of becoming a homeowner.

Please keep this Consumer Guide in a safe and convenient location where you can reference it in the future for information, or pass it along to others you know who might be interested in learning more about the home-buying process.

## **MISSION STATEMENT**

*To provide our members with the resources,  
legislative voice and education to effectively guide  
the people of the state of Michigan  
in the achievement of the American Dream  
of home ownership.*





## BENEFITS OF HOME OWNERSHIP

- Pride of ownership/personal satisfaction
  - *take control of owning something versus renting*
- Tax savings/benefits
  - *mortgage interest is tax deductible*
  - *property taxes are tax deductible*
- Forced savings account
  - *every payment builds equity for the future*
  - *every payment builds savings for retirement*
- Community building and bonding
- Improves the image of the city/township and neighboring communities
- Stability for you and your family
- Homes are an asset that can actually appreciate, or increase in value, as time passes

## WHO'S WHO IN THE HOME-BUYING PROCESS

PERSON	DESCRIPTION OF SERVICE(S) PERFORMED
BORROWER	<i>Person who borrows money to buy a home and pledges to repay the money back with interest</i>
MORTGAGE LENDER	<i>Licensed mortgage banker, mortgage broker or financial institution who lends money using the property as security for payment of the debt</i>
REAL ESTATE AGENT	<i>Licensed professional who negotiates and coordinates the real estate transaction</i>
APPRAISER	<i>Licensed professional who evaluates a property and assigns a market value</i>
HOME INSPECTOR	<i>Licensed professional who examines a home for structural defects such as problems with the roof, wiring, plumbing, heating or cooling systems</i>
MORTGAGE INSURER	<i>Institution that insures the mortgage lender against loss in case the borrower defaults on the loan</i>
INSURANCE AGENT	<i>Licensed professional who provides insurance to protect the borrower against physical damage to the property such as fire, wind, vandalism or other hazards</i>
TITLE AGENT	<i>Institution that performs the settlement/closing process and ensures all required documentation is completed properly</i>
ATTORNEY	<i>Licensed professional who gives legal advice to any and all interested parties to the transaction</i>
MORTGAGE SERVICER	<i>Institution that actually collects and processes payments for the loan. The servicer may be someone other than the mortgage lender</i>



## **MORTGAGE LOAN PROCESS**

- 1 Select a mortgage lender
  - contact your local financial institution
  - ask family, friends and neighbors for a referral
- 2 Gather loan application documentation (see page 3)
- 3 Set appointment with mortgage lender
- 4 Application is taken by mortgage lender
- 5 Loan documents are ordered or coordinated by mortgage lender
  - appraisal
  - credit report
  - mortgage survey
  - title insurance commitment
  - flood certificate
  - verifications (employment, income, assets and liabilities)
- 6 Loan file is submitted by mortgage lender to underwriter for credit decision
- 7 Loan file is prepared for closing by mortgage lender
  - clear outstanding closing conditions
  - title commitment is reviewed and cleared
  - appropriate insurance is secured (homeowners or condominium)
- 8 Closing date and time are set by mortgage lender with title company
  - review closing documents for content
  - review closing documents for understanding
- 9 Move in



## WHAT IS A RATE LOCK?

Many consumers know that the interest rates available for mortgage loans are subject to change, based on economic conditions. However, what many consumers do not recognize is that the rates on most loan products are subject to change on a daily basis.

Understanding that mortgage rates can change on a daily basis is important when shopping for a loan. But once you have identified the lender that you would like to work with, it is equally important that you have the opportunity to "lock" the pricing on the loan.

For those loan products that are subject to daily price changes, most lenders will give you the option of either "locking" or "floating". Locking (also known as a "rate lock" or "rate commitment") is a lender's agreement to hold a specified interest rate and discount points (if applicable) for a specific period of time while the loan is being processed. Floating means that the interest rate and discount points are not established, but will be locked at a later date. When you lock, the lender should provide you with a written document confirming the terms of your lock.

Some lenders will allow you to lock the loan's pricing at the time you make loan application, and some lenders will only allow you to lock after you have been pre-approved for the loan. Having to wait for a pre-approval is not necessarily a negative - it allows the lender the opportunity to properly "grade" your loan in order to provide you an accurate price. However, you should inquire as to the length of time it will take the lender to provide the pre-approval - remember, interest rates can change daily.

Most lenders offer lock periods from 15 days to 90 days. Lock periods as long as 360 days are available from some lenders. These longer lock periods could prove useful if the loan is for a home that is under construction.

It is important to understand that the longer the lock period, the more expensive the loan. Although the difference in price between a 30 day lock and a 60 day lock is relatively small, the difference between a 30 day lock and a 120 day lock could be as much as 1/8% in the loan's interest rate. In addition, lock periods longer than 90 days generally require the payment of an up-front fee.

To avoid this additional cost of a longer lock period, some consumers will "float" until they get closer to the time of loan closing and then lock the pricing. However, this strategy must be considered in conjunction with the fact that interest rates can change dramatically over a short period of time. It is not unusual for mortgage rates to increase or decrease as much as 1/4% within a one-week period.

The lock period selected must be of sufficient length to handle the time it will take to close the transaction. It is worthless to lock a great deal on a loan if the loan cannot be closed within the lock period. Ask the lender how much time it will need to have your loan ready to close. Any competent lender should be able to have most loan applications ready to close in 30 days. If you are buying a home, the lock period should be long enough to cover the closing date set forth in the sales contract.

For certain types of loans the interest rates change infrequently - once a week or once a month. For these types of loans you usually will not have the option of locking or floating. Instead the pricing is usually automatically locked for some period of time (usually 30 days) when the lender receives preliminary loan approval.





There are pros and cons to entering into a rate lock. A rate lock is advantageous in times of rising rates, but will not allow you to benefit should interest rates fall. If interest rates increase and you have not locked in the rate, the increase in the mortgage payment due to the higher rates may mean you can no longer qualify for the loan.

It is important to remember that a rate lock is the lender's promise to hold a specific rate and discount points. It is not a loan approval, and normal processing and underwriting procedures will have to take place before an approval is issued.

## **DOCUMENTS TO GATHER FOR LOAN APPLICATION**

- 1** Copy of purchase agreement along with any disclosures and/or addendums
- 2** Verification of income for borrower(s)
  - one (1) month of current pay stubs
  - W-2's from the last two (2) years
  - personal tax returns (1040) for the last two (2) years
  - corporate tax returns (1120) for the last two (2) years (if you own a corporation)
  - partnership tax returns (1065) for the last two (2) years (if you are a partnership)
  - year-to-date profit and loss statement (if you own more than 25% of a corporation or are self-employed)
- 3** Verification of assets
  - two (2) most recent deposit account statements for liquid assets such as checking, savings, mutual funds, money markets
  - most recent quarterly account statement for retirement assets such as IRA's, 401 K's, profit sharing, etc.
  - gift letter (if applicable)
- 4** Verification of liabilities
  - name, account number, account balance and monthly payment for all outstanding debts
  - name, address, phone number and monthly payment for existing mortgage, land contract or rental history or twelve months cancelled checks for mortgage, land contract or rental history
- 5** Copy of legal documents
  - divorce decree, bankruptcy papers or marriage certificate (if applicable)
- 6** Explanation letter(s) for the following
  - credit inquiries
  - delinquent credit
  - gaps in employment
  - large deposits



## UNDERSTANDING YOUR CREDIT

Credit means you are using someone else's money to pay for something. It also means you are making a promise to repay the money (the loan) to the company that loaned you the money (the lender). A loan includes both principal (the amount of money you borrowed) and interest (the additional dollars you pay for the privilege of borrowing the money). Good credit means that you make your loan payments on time and you repay your debts as promised. When you have a good credit record, mortgage lenders are more confident that you will be willing and able to pay back the loan.

If you don't have good credit right now, don't get discouraged. It may take some time but you will be far better off if you improve your credit before you apply for a mortgage loan. If you have a habit of not paying your bills on time or have a lot of debt, the mortgage lender may still give you a loan but with a larger down payment requirement or at a higher interest rate. Therefore, it is important to establish a good credit rating by taking care of your debts and getting in the habit of paying your bills on time.

### **What is a credit report?**

A credit report is a history of how you have paid your debts. It shows how much debt you have and the repayment of those debts. Credit reports do not show information about your race, religion, medical history, lifestyle, political preferences, criminal records or any other information unrelated to credit.

There are four components of a credit report:

- Personal information such as your name, address, social security number, date of birth and employment information;
- Credit information on your debts such as date opened, credit limit and outstanding loan balance. The report also shows your payment history along with the names of anyone else responsible for the debt, such as a spouse or co-signer;
- Public record information such as bankruptcy records, foreclosures, judgements and tax liens for unpaid taxes; and
- Credit inquiries identifying how often you have applied for credit and the names of those companies that have reviewed your credit report.

### **What can be done to improve my credit?**

- Pay loans first
- Pay off credit cards every month
- Remind yourself that credit cards are loans
- Charge less than the maximum amount available on your credit card
- Only apply for the credit you need
- Choose a credit card with a low interest rate and minimal fees
- Try to pay more than the minimum due each month
- Use your credit card to establish good credit
- Look for ways to cut your expenses and/or increase your income
- Keep track of bills and past-due notices



### **How can I create a credit history if I don't have one?**

You may prefer to pay cash for everything you buy. Perhaps you have changed marital status and do not have any credit in your name. If you are not in debt, you should feel good about that. However, most mortgage lenders will want to see a record of how well you can pay bills and manage credit. Here are some suggestions:

- Keep copies of bills you pay each month such as rent, telephone, electricity, cable television, gas and auto insurance
- Keep copies of cancelled checks used to pay your bills
- Ask your landlord or utility companies to write a letter including how long you have been a customer and how well you have paid your bills each month
- If you are recently married, make sure some accounts are in your name as well as your spouse's name in order to build a credit history

### **What is a credit score?**

A credit score is calculated using past credit history data and assigned a number in the range of 350 - 900. Several factors are reviewed in determining a score but it is impossible to know exactly all the credit variables considered and how they are weighed. Overall, the scores that are generated are a good predictor of how a loan will perform.

- Scores below 601 yield 8 good loans for each bad one
- Scores from 700-729 yield 129 good loans for each bad one
- Scores above 800 yield 1292 good loans for each bad one

The model for credit scores contains 33 variables to be the most predictive of an individual's future ability to repay a loan. The variables are grouped into five categories:

- 1) previous credit performance
- 2) current level of debt
- 3) amount of time that the credit has been in use
- 4) pursuit of new credit
- 5) types of credit available

### **How can I improve my credit score now?**

The best way to keep the score high is to pay bills on time, avoid collections and bankruptcies. If the score is already low, here is a checklist of things that can be done to improve it:

- Pay down any credit card balance to below 50% of the high credit
- Close all accounts that have ever been late
- Close all but two to three revolving credit accounts
- Limit the number of inquiries made to your file
- Pay off all collection accounts
- Write a dispute letter on any account that might not be accurate

### **How long will poor credit remain on my credit report?**

Most negative information (e.g. collections, foreclosures and bankruptcies) remains on your credit report anywhere from 7 to 10 years.



## **INCOME USED TO QUALIFY FOR A LOAN**

- Salary
- Overtime (two (2) year history and likely to continue in the future)
- Self-employment (two (2) year history and likely to continue in the future)
- Commissions (two (2) year history and likely to continue in the future)
- Bonus (two (2) year history and likely to continue in the future)
- Alimony (if ongoing for another three (3) years)
- Child support (if ongoing for another three (3) years)
- Disability and workman's compensation (if ongoing for another three (3) years)
- Interest and dividends (if ongoing for the last two (2) years)
- Military pay (if ongoing for another three (3) years)
- Pension (if ongoing for another three (3) years)
- Rental (if ongoing for another two (2) years)
- Retirement accounts: 401K, IRA, SEP (must be of retirement age and ongoing for another three (3) years)
- Social security (if ongoing for another three (3) years)



## CALCULATION OF INCOME

FREQUENCY OF PAY	TO CALCULATE MONTHLY INCOME
HOURLY	<i>Multiply hourly rate by 2080 and divide by 12*</i> <i>(* 2080 assumes 40 hours per workweek times 52 weeks)</i>
WEEKLY	<i>Multiply weekly gross earnings by 52 and divide by 12</i>
BI-WEEKLY	<i>Multiply bi-weekly gross earnings by 26 and divide by 12</i>
BI-MONTHLY	<i>Multiply bi-monthly gross earnings by 24 and divide by 12</i>
MONTHLY	<i>Use gross monthly earnings</i>
ANNUAL	<i>Divide annual gross earnings by 12</i>
SELF-EMPLOYED	<i>Add previous two years net wages and then divide by number of months</i> <i>(Net wages = gross revenues minus expenses)</i>

## CALCULATION OF MONTHLY MORTGAGE PAYMENT

Principal and interest	\$ _____	<i>(based on loan amount and interest rate)</i>
Property taxes	\$ _____	<i>(1/12 of annual property tax bills)</i>
Homeowners insurance	\$ _____	<i>(1/12 of annual insurance premium)</i>
Private mortgage insurance	\$ _____	<i>(based on loan amount and down payment)</i>
Association dues	\$ _____	<i>(applies to condominiums)</i>
<b>TOTAL MONTHLY PAYMENT</b>	<b>\$ _____</b>	<b>PITI*</b>

\*Mortgage lenders refer to principal, interest, taxes and insurance as PITI. Generally, the PITI is the amount you will pay each month on your mortgage. The taxes and insurance portions of your payment are put into an escrow account to pay the property tax and insurance bills when they are due.



## VERIFICATION OF INCOME

- Salaried borrower(s)
  - copy of pay stubs for one (1) month
  - letter from employer
  - verification of employment sent from mortgage lender to employer
  - W-2's from last two (2) years
  
- Non-salaried borrower(s)
  - personal tax returns (1040) from the last two (2) years
  - letter from Social Security Administration
  - letter from Friend of the Court
  - letter from accountant and/or CPA and/or financial advisor
  - letter from medical professional
  - copy of Divorce Decree
  - verification of employment sent from mortgage lender to employer
  
- Self-employed borrower(s)
  - personal tax returns (1040) from the last two (2) years
  - corporate tax returns (1120) from the last two (2) years
  - partnership tax returns (1065) from the last two (2) years
  - letter from accountant and/or CPA



## MONTHLY PAYMENT FOR EVERY \$1000 BORROWED

INTEREST RATE	15 YEARS	20 YEARS	30 YEARS
4.00%	\$ 7.40	\$ 6.06	\$ 4.77
4.50%	\$ 7.65	\$ 6.33	\$ 5.07
5.00%	\$ 7.91	\$ 6.60	\$ 5.37
5.50%	\$ 8.17	\$ 6.88	\$ 5.68
6.00%	\$ 8.44	\$ 7.16	\$ 6.00
6.50%	\$ 8.71	\$ 7.46	\$ 6.32
7.00%	\$ 8.99	\$ 7.75	\$ 6.65
7.50%	\$ 9.27	\$ 8.06	\$ 6.99
8.00%	\$ 9.56	\$ 8.36	\$ 7.34
8.50%	\$ 9.85	\$ 8.68	\$ 7.69
9.00%	\$10.14	\$ 9.00	\$ 8.05
9.50%	\$10.44	\$ 9.32	\$ 8.41
10.00%	\$10.75	\$ 9.65	\$ 8.78

This table will help you calculate your monthly principal and interest payment. For example, assume you have a 30-year fixed rate mortgage and the interest rate is 8.00%. The chart shows that the monthly payment per \$1000 is \$7.34. If you want to borrow \$75,000, you can estimate the payment by multiplying 75 x \$7.34, which equals \$550.50 per month. As you can see, the lower the interest rate, the easier it is to qualify for an affordable loan.



## 25003 0812 HOW TO PREPARE A BUDGET 250002

MONTHLY INCOME	
WAGES - Borrower	\$ _____
WAGES - Co-borrower	\$ _____
OTHER INCOME ( _____ )	\$ _____
OTHER INCOME ( _____ )	\$ _____
OTHER INCOME ( _____ )	\$ _____
<b>TOTAL MONTHLY INCOME</b>	\$ _____ <b>A</b>

MONTHLY EXPENSES	
RENT	\$ _____
AUTO PAYMENT	\$ _____
AUTO PAYMENT	\$ _____
STUDENT LOANS	\$ _____
CREDIT CARD	\$ _____
CREDIT CARD	\$ _____
CREDIT CARD	\$ _____
UTILITIES - Phone	\$ _____
UTILITIES - Gas/Electric	\$ _____
UTILITIES - Water	\$ _____
AUTO EXPENSES (gas, repairs, insurance)	\$ _____
GROCERIES (food, beverages)	\$ _____
MEALS/ENTERTAINMENT	\$ _____
SOCIAL	\$ _____
EDUCATION/TUITION	\$ _____
CHURCH/CHARITY	\$ _____
CLOTHING/GROOMING	\$ _____
INSURANCE (health, life, disability)	\$ _____
CHILD CARE/DAY CARE	\$ _____
CHILD SUPPORT/ALIMONY	\$ _____
SAVINGS	\$ _____
RETIREMENT (401 K, IRA)	\$ _____
OTHER ( _____ )	\$ _____
OTHER ( _____ )	\$ _____
OTHER ( _____ )	\$ _____
<b>TOTAL MONTHLY EXPENSES</b>	\$ _____ <b>B</b>

<b>NET INCOME (A - B)</b>	\$ _____
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## SOURCES FOR DOWN PAYMENT AND CLOSING COSTS

- Checking account(s)
- Savings account(s)
- Commission check(s) from employer
- Bonus from employer
- Equity from another real estate asset\*  
*(\* Proof of ownership of the asset is required)*
- Gift from a blood relative or nonprofit organization
- Inheritance
- Life insurance loan
- Money market account(s)
- Mutual fund(s)
- Proceeds from the sale of another residence
- Refinance another asset (automobile, boat, etc)
- Refund(s) from federal or state tax return(s)
- Sale or liquidation of an asset (automobile, boat, etc)\*  
*(\* Proof of ownership of the asset is required)*
- Sale of liquidation of a collection (baseball cards, stamps, coins, etc)\*  
*(\* Proof of ownership of the asset is required)*
- Sale or liquidation of an investment (stocks, bonds, retirement account, etc)



## SAMPLE OF CLOSING COSTS/SETTLEMENT COSTS

DESCRIPTION OF FEES	AVERAGE COST
ADMINISTRATIVE	\$100-\$250 (depends on mortgage lender)
APPRAISAL	\$150-\$500 (depends on type and location of property)
ASSIGNMENT	\$10-\$20 (depends on mortgage lender)
CREDIT REPORT	\$13-\$45 (depends on mortgage lender)
CLOSING/SETTLEMENT	\$300-\$450 (depends on title company)
COMMITMENT	\$100-\$250 (depends on mortgage lender)
COURIER/OVERNIGHT	\$20-\$50 (depends on title company)
DISCOUNT POINT(S)	\$0-\$ ??? (depends on mortgage lender)
FLOOD CERTIFICATE	\$13-\$35 (depends on mortgage lender)
INSPECTION	\$50-\$250 (depends on inspection company)
MERS	\$3-\$5
ORINATION	\$0-\$ ??? (depends on mortgage lender)
PROCESSING	\$100-\$495 (depends on mortgage lender)
RECORDING	\$25-\$60 (depends on county and documents)
SURVEY	\$90-\$200 (depends on type and location of property)
TAX SERVICE	\$65-\$95 (depends on mortgage lender)
TITLE COMMITMENT	\$150-\$ ??? (depends on loan amount)
UNDERWRITING	\$100-\$500 (depends on mortgage lender)

Please note that the amounts listed on the Good Faith Estimate are only estimates. Actual costs may vary. Changing market conditions, location and property type can affect prices. Finally, remember that the mortgage lender's estimate is not a guarantee.



## DOCUMENTS TO BRING TO THE LOAN CLOSING

- 1 Copy of homeowners insurance policy with a one-year paid receipt
- 2 Drivers license for each borrower
- 3 Cashiers or certified check for all of the settlement charges/closing costs
- 4 Copy of any outstanding closing condition(s) as requested by mortgage lender



## COMPARISON OF LOAN PROGRAMS

	TYPE OF LOAN				
	ZERO DOWN CONVENTIONAL	CONVENTIONAL	FHA	VA	SUBPRIME/ NON-CONFORMING
MINIMUM DOWN PAYMENT	0%	3%	3%	0%	5%-10%
MAXIMUM HOUSING DEBT RATIOS	28%	28%	29%	N/A	28%
MAXIMUM TOTAL DEBT RATIOS	36%-41%	36%	41%	41%	40%
INTEREST RATES	Slightly higher than conventional	Lowest	Slightly higher than conventional	Slightly higher than FHA	Highest
CLOSING COSTS/ SETTLEMENT CHARGES	Low	Low	Slightly higher than conventional	Slightly higher than FHA	Highest

### FIXED RATE MORTGAGES

- Predictable, consistent payments
- Payments unaffected by changes in interest rates or inflation

### BALLOON MORTGAGES

- Usually lower initial interest rates
- May allow a borrower to qualify for a larger loan amount

### ADJUSTABLE RATE MORTGAGES

- Usually lower initial interest rates
- May allow a borrower to qualify for a larger loan amount
- Unpredictable, inconsistent payments



## UNDERSTANDING THE PURCHASE AGREEMENT

You may make changes or additions to the purchase agreement, however the seller must agree to every change you make. You should also agree with the seller on when you will move in and what appliances will be sold with the home.

### **SALES PRICE**

The sales price is the most important term. Recognize that other non-monetary terms of the agreement are also important.

### **TITLE**

Title refers to the legal ownership of your new home. The seller should provide title that is free and clear of all claims/liens by others against your new home.

### **EARNEST DEPOSIT**

The purchase agreement should provide that your earnest deposit will be refunded if the sale has to be cancelled because you are unable to get mortgage financing.

### **PESTS**

Your mortgage lender may require a certificate from a qualified inspector stating that the home is free from termites and other pests and pest damage. You may want to reserve the right to cancel the agreement or seek immediate treatment and repairs by the seller if pest damage is found.

### **HOME INSPECTION**

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 may wish to include in the purchase agreement the right to cancel if you are not satisfied with the inspection results. You may want to renegotiate for a lower sale price or require the seller to make repairs.

### **LEAD BASED PAINT**

If you buy a home built before 1978, you have certain rights concerning lead based paint and lead poisoning hazards. The seller or real estate agent must tell you what the seller actually knows about the home's lead based paint and give you any relevant records or reports. You have at least 10 days to do an inspection or risk assessment. The right to cancel the sale based on the results of an inspection or risk assessment will need to be negotiated with the seller.



## HOMEBUYER CHECKLIST

DESCRIPTION OF ITEM	HOUSE#1	HOUSE #2	HOUSE #3	HOUSE #4
DATE				
HOUSE ADDRESS				
LIST PRICE				
COMMUNITY/AREA				
SCHOOL SYSTEM				
TYPE OF HEATING/ COOLING				
MONTHLY HEATING/ COOLING \$				
# OF BEDROOMS				
# OF BATHROOMS				
ATTACHED/DETACHED GARAGE				
BASEMENT/CRAWL/SLAB				
CONDITION OF INTERIOR				
CONDITION OF EXTERIOR				
SQUARE FOOTAGE				
ANNUAL PROPERTY TAXES				
LOT SIZE				
PROXIMITY TO TRANSPORTATION				
PROXIMITY TO SHOPPING				
REPAIRS NEEDED				
PROS				
CONS				



## HOME INSPECTIONS

### **What is a home inspection?**

A home inspector checks the safety of your potential home. They focus on the structure, construction and mechanical systems of the home and will make you aware of repairs that are needed. The home inspector does not evaluate whether or not you are getting a good deal for the money. Generally, an inspector checks on the electrical system, plumbing, waste disposal, water heater, insulation, ventilation, heating and cooling system, water source and quality, potential presence of pests, foundation, doors, windows, ceilings, walls, floors and roof.

### **Do I need to be there for the inspection?**

It is not required but it is a good idea. It presents an opportunity to hear an objective opinion on the home you want to purchase and it's a good time to ask general maintenance questions.

### **Are other types of inspections required?**

If your home inspector discovers a serious problem, a more specific inspection may be recommended.

### **When should I have an inspection completed?**

It is a good idea to have an inspection before you complete the purchase agreement. You may want to include an inspection clause in the offer that gives you an out on buying the house if serious problems are found. This will give you the ability to renegotiate the purchase price if repairs are needed. An inspection clause can also specify that the seller must fix the problem(s) before you purchase the house.



## HOME INSPECTION CHECKLIST

DESCRIPTION OF ITEM	FINDINGS/RESULTS
BASEMENT	
CABINETS AND COUNTERTOPS	
CHIMNEY	
DOORS	
DRIVEWAY	
ELECTRICAL	
EXTERIOR	
FIREPLACE	
FLOORS	
FOUNDATION	
GARAGE	
GRADE	
HEATING AND AIR CONDITIONING	
INTERIOR	
KITCHEN APPLIANCES	
PLUMBING	
ROOF	
VENTILATION	
WALLS, CEILINGS AND TRIM	
WINDOWS AND DOORS	





## APPRAISALS

### What is an appraisal?

An appraisal is an opinion of value or the act or process of estimating the value. This opinion or estimate is derived by using three (3) common approaches, all derived from the marketplace. The three (3) approaches are as follows:

- Cost approach: what it would cost to replace or reproduce the improvements as of the date of the appraisal, less the physical deterioration, functional obsolescence and the economic obsolescence. The remainder is added to the land value.
- Comparison approach: makes use of other benchmark properties of similar size, quality and location that have recently sold. A comparison is made to the subject property.
- Income approach: primary importance in ascertaining the value of income producing properties has little weight in residential type properties. This approach provides an objective estimate of what a prudent investor would pay based upon the net income the property produces.

### What is the purpose of the appraisal?

The appraisal provides a basis for value. Fair market value is defined as the most accurate price your home would bring given an open market, a reasonable marketing time and its current condition. Most mortgage lenders view reasonable marketing time as less than six (6) months. If you fail to make your payments and the loan is foreclosed upon, the lender must be able to sell the home in as little time as possible with no repairs or updates required.

### What are some items to be concerned about on an appraisal?

- Property values: a property located in a neighborhood or general market area with declining property values represents a higher, possibly unacceptable risk
- Demand/supply: a neighborhood with an oversupply of housing units may reflect problems with marketability
- Occupancy: high vacancies or an abundance of tenant occupants indicates that the neighborhood may be oriented to rental rather than owner occupied housing
- Site comments: adverse site conditions that may affect the value or marketability of the property can be cause for concern. These include influences such as adverse easements, encroachments or special assessments
- Predominant value: homes that fall outside the neighborhood price range or are at the extreme high or low end of the range can be higher risk properties
- Location of the comparables: except for rural locations, at least two of the three required comparables should be located within one mile of the appraised property
- Adverse environmental conditions: environmental items such as proximity to a hazardous waste site might have a negative influence on value
- Condition: presence of incurable structural factors that decrease value may cause the property to be unacceptable
- Zoning compliance: the property should be zoned residential and present improvements should conform to zoning regulations



## **PRIVATE MORTGAGE INSURANCE**

### **What is private mortgage insurance (PMI)?**

Private mortgage insurance protects lenders against the costs of foreclosure. It also allows lenders to grant loans that they otherwise would not consider. In effect, mortgage insurance provides the equity a higher down payment would provide to cover a mortgage lender's losses in the event of foreclosure. Without private mortgage insurance, you might not be able to purchase a home without a 20% down payment.

### **If I have good credit, must my loan still have PMI?**

Even if you have an excellent credit record and the capability to meet mortgage payments, most mortgage lenders require PMI as a matter of policy for any loan with a small down payment. Private mortgage insurance allows lenders to grant loans that they otherwise would not consider.

### **How small can my down payment be?**

Private mortgage insurance makes it possible for you to obtain a mortgage with a minimal or no down payment. Also, under certain programs, the down payment may come from sources other than the borrower such as gifts, grants, unsecured loans, etc.

### **Who pays for private mortgage insurance and how?**

The mortgage lender is responsible for remitting the mortgage insurance payments to the mortgage insurer. Most often the mortgage lenders costs are charged to you and added to your monthly principal and interest payment along with your property taxes and homeowner insurance. Loan programs not requiring private mortgage insurance are typically associated with higher interest rates and closing costs.

### **Is PMI different from other kinds of insurance associated with mortgages?**

Yes. Private mortgage insurance protects the lender in the event of borrower default and subsequent foreclosure on the home. Credit life insurance is life insurance coverage that pays off the mortgage in the event a borrower dies. Credit disability insurance pays off the mortgage in the event the borrower becomes disabled or incurs loss of health or income according to the terms of the policy. Fire, liability and theft insurance cover the homeowner and mortgage lender from losses according to the terms and conditions of their respective insurance policies.

### **How does PMI differ from insurance programs offered by FHA and VA?**

Although the insurance protection concept is similar, there are advantages to using private mortgage insurance. For one, private mortgage insurers have higher loan limits than FHA and VA. Second, private mortgage insurance generally costs less. In addition, borrowers can expect faster loan approval, less paperwork and more variety in premium plans.

### **How will PMI affect my monthly mortgage payments?**

Premiums are based on the amount and terms of the mortgage and will vary according to the amount of your down payment, type of loan and level of coverage required by the mortgage lender. Mortgage lenders must identify all costs, including private mortgage insurance premiums, at the time of the loan application and when the loan actually closes.



### **What are my PMI payment options?**

Most private mortgage insurance companies have created a range of premium options to meet your needs.

**Monthly premium:** This is a pay-as-you-go insurance. With this plan, your mortgage insurance payment is folded into your monthly mortgage payment. You pay zero to two months premium at closing. It is a good choice if you want to minimize your closing costs.

**Single premium:** With this plan, you finance a one-time premium as part of your loan. It is ideal if you want to keep both your closing costs and your monthly mortgage payments at a minimum.

**Lender-paid premium:** With this plan, the mortgage lender pays the private mortgage insurance premium. You pay a higher interest rate to cover the mortgage lender's higher costs of loaning you the money. This plan lowers closing costs and monthly payments.

### **When can PMI coverage be dropped?**

Federal law requires that private mortgage insurance automatically terminate when the outstanding principal balance reaches 78% of the original value of the home, provided that you are current on payments. When the balance on these loans reaches 80% of the original property value, you may contact your mortgage servicer with a written request to cancel your mortgage insurance.



## TITLE INSURANCE

### **What is a title?**

A title is the foundation of property ownership. It is the owner's right to possess and use the property.

### **What is a title search?**

A title search is a detailed examination of the historical records concerning a property. These records include deeds, court records, property and name indexes and many other documents. The purpose of the search is to verify the seller's right to transfer ownership and to discover any claims, defects and other rights or burdens on the property.

### **What kinds of problems can a title search reveal?**

A title search can show a number of title defects and liens as well as other encumbrances and restrictions. Among these are unpaid taxes, unsatisfied mortgages, judgments against the seller and restrictions limiting the use of the land.

### **Are there any problems that a title search cannot reveal?**

Yes. There are some hidden hazards that even the most diligent title search may never reveal. For instance, the previous owner could have incorrectly stated his marital status, resulting in a possible claim by their legal spouse. Other hidden hazards include fraud and forgery, defective deeds, mental incompetence, confusion due to similar or identical names and clerical errors in the records. These defects can arise after you have purchased your home and can jeopardize your right to ownership.

### **What is title insurance?**

Title insurance is your policy of protection against loss if any of these hidden hazards results in a claim against your ownership.

### **How much could I lose if a claim is filed against my property?**

It depends on the claim. In an extreme case, you could lose your entire home and property and still be liable to pay off the balance of your mortgage. Most claims aren't that dramatic but even the smallest claim can cost you time, money and aggravation and you may have to pay legal costs for a legal defense.

### **How does title insurance protect my investment if a claim should arise?**

If a claim is made against your property, title insurance (in accordance with the terms of your policy) will assure you of a legal defense and pay all court costs and related fees. If the claim proves valid, you will be reimbursed for your actual loss up to the face amount of the policy.

### **The owner of the property has a deed. Isn't that proof of ownership?**

Not necessarily. A deed is a document by which the right of ownership in land is transferred, whatever that right may be. It is not proof of ownership and it doesn't do away with rights others may have in the property. In addition, a deed won't show you liens or claims that may be outstanding against the title.



**Are there different types of title insurance policies?**

Yes. Basically there are two (2) different types of policies - a loan policy and an owner's policy. The loan policy protects the mortgage lender's interest in the property as security for the outstanding mortgage balance. The owner's policy safeguards the buyer's investment or equity in the property up to the face amount of the policy.

**How much does title insurance cost?**

Generally speaking, the cost of title insurance (including search, examination and related services) for both policies amounts to about one percent of the cost of the property. Unlike other insurance premiums, which must be paid annually, a title insurance premium is paid one time only, usually at the closing/settlement.

**How long does my coverage last?**

For as long as you or your heirs retain an interest in the property.

## **MICHIGAN BORROWER'S BILL OF RIGHTS**

The Mortgage Bankers Association of America developed the Borrower's Bill of Rights to protect borrowers from deceptive and fraudulent lending practices when taking out a mortgage or home equity loan.

- A borrower has the right to clear and forthright explanations of the terms and conditions of the loan
- A borrower has the right to timely and truthful disclosures regarding the rates and costs of the loan
- A borrower has the right to accurate disclosure of final annual percentage rate and amount of regular payments at the time of loan closing/settlement
- A borrower has the right not to be subject to deceptive marketing tactics
- A borrower has the right to obtain credit counseling prior to closing on the loan
- A borrower has the right to have a lender consider a borrower's ability to repay the loan before such credit is extended
- A borrower should receive a tangible benefit when charged a fee or higher interest rate to refinance a loan
- A borrower has the right to not be subject to a requirement that they finance any portion of points or fees
- A borrower has the right to decline credit insurance in connection with a loan
- A borrower has the right to a fair and equitable resolution to any disputes related to their loan
- A borrower has the right to have favorable information reported to credit bureaus on a timely basis



## **SUMMARY OF THE CONSUMER MORTGAGE PROTECTION ACT (PUBLIC ACT 660 OF 2002)**

Governor Engler, on December 23, 2002, signed into law Public Act 660 of 2002, with immediate effect. The legislation, which is entitled "The Consumer Mortgage Protection Act", includes the following major provisions:

- a) Defines "mortgage loan" as a loan or home improvement installment contract secured by a first or junior lien or land contract on 1-4 family Michigan property, but exempts purchase-money and reverse mortgage loans, and open-end credit.
- b) Prohibits balloon payments for loans of less than five years, except for bridge loans of less than one-year maturity for acquiring or constructing the borrower's principal dwelling.
- c) Gives the OFIS Commissioner the explicit authority and responsibility to enforce applicable federal consumer protection laws and regulations including the federal Home Ownership and Equity Protection Act (HOEPA).
- d) Prohibits originators from charging a fee for a product or service that is not actually provided to the customer.
- e) Prohibits loan originators from misrepresenting the amount charged by or paid to a third party for a product or service
- f) Prohibits the financing of single premium coverage for credit life, credit disability, or credit unemployment insurance.
- g) Prohibits a person, appraiser, or real estate agent from directly or indirectly making any false, deceptive or misleading statements or representations in connection with a mortgage loan including the borrower's ability to qualify for the loan or the value of the dwelling to be used as security.
- h) Prohibits a lender from inserting or changing information on an application if the lender knows the information is false and misleading and intended to deceive a third party that the borrower qualifies for the loan.
- i) Prohibits a lender from conditioning the payment of an appraisal upon a predetermined value or on the closing of the mortgage loan.
- j) Prohibits a person from directly or indirectly compensating, coercing or intimidating an appraiser for the purpose of influencing the appraiser's judgement on the dwelling offered as security.
- k) Prohibits blank spaces regarding payments, interest rates, maturity date or amount borrowed to be filled in after note is signed.
- l) Requires that applicants be given at the time of filing an application, a Borrowers Bill of Rights statement and a Consumer Caution and Home Ownership Counseling Notice.
- m) Authorizes the attorney general or county prosecuting attorneys to bring an action against a person or company that has violated the act, which could include civil fines of up to \$10,000 for the first offense and up to \$20,000 for the second and any subsequent offense.
- n) Preempts local ordinances of any type that attempt to regulate the mortgage lending business or impose any type of reporting requirement on lending activity.



## **FEDERAL REGULATIONS PERTAINING TO MORTGAGE LENDING**

### **Equal Credit Opportunity Act (ECOA)**

- Prohibits mortgage lenders from discriminating against any borrower at any point in a credit application on the basis of race, religion, sex, age, color, national origin, marital status or receipt of public assistance

### **Fair Housing Act**

- Makes it unlawful for anyone to discriminate in housing related activities, including mortgage lending, against any person because of race, color, religion, sex, handicap, familial status or national origin

### **Real Estate Settlement Procedures Act (RESPA)**

- Provides borrowers with pertinent and timely disclosures regarding the nature and costs of real estate transactions
- Provides restrictions and requires disclosures when referring customers to affiliated businesses for a settlement service
- Requires a Good Faith Estimate (GFE) of closing costs and special information booklet explaining settlement costs be provided to loan applicants
- Requires a HUD 1 Closing/Settlement statement showing costs of the real estate closing
- Requires disclosures regarding the transfer of mortgage servicing
- Prohibits kickbacks for the referral of mortgage loans

### **Truth-in-Lending Act (TILA)**

- Ensures that credit terms are disclosed in a meaningful way so that consumers can compare products more readily and knowledgeably
- Requires early disclosures for adjustable rate mortgages
- Requires early truth in lending disclosures for certain real estate loans
- Requires final truth in lending disclosures
- Allows a consumer a right to rescind or cancel certain transactions
- Sets the requirements and requires disclosures for high rate/high fee mortgage loans

### **Home Mortgage Disclosure Act (HMDA)**

- Requires mortgage lenders to report information regarding mortgage loans and loan applicants

### **Fair Credit Reporting Act (FCRA)**

- Places disclosure obligations on users of consumer credit reports
- Ensures fair, timely and accurate reporting of credit information
- Requires the deletion of obsolete information in certain situations
- Requires a disclosure to consumers when adverse action is taken on their loan application
- Requires accurate information to credit bureaus and other consumer reporting agencies



## **WARNING SIGNS OF PREDATORY LENDING**

- If you have a balloon loan (one in which after a series of low payments the entire loan balance is due in a large lump sum), will you need to obtain another loan to finance that final lump sum amount?
- Were you required to buy credit insurance, insurance that will repay the debt if you die or become disabled? (Note: Credit insurance is optional and will not affect your loan decision if you decline to buy it. It can, however, add considerable costs to the loan transaction).
- Have you refinanced your loan several times, and in each instance, increased either your monthly payment and/or total amount you owe on the home?
- After settlement, were you surprised to find that the monthly payments on your mortgage loan were higher than you anticipated based on the initial disclosures?
- Did you incur any unexpected costs at closing/settlement that were not explained to you prior to the closing/settlement?
- Were you asked to leave signature lines or any other important line items of any form blank? Did the mortgage lender alter any information you entered on your loan application?
- Do your documents reveal that your interest rate calculation will change to require you to pay daily interest in instances when your payments are late?
- Is your loan amount higher than the value of the home?
- Were you encouraged to include false information on your loan application?





## QUESTIONS AND ANSWERS

### How do I know if I'm ready to buy a home?

Ask yourself the following questions:

- Do I have a steady job and reliable source of income?
- Do I have a good record of paying my bills?
- Do I have money saved for a down payment?
- Do I have the ability to pay a mortgage every month plus additional expenses like utilities, food, auto insurance?

If you answer yes to these questions, you are probably ready to buy a home.

### How does purchasing a home compare with renting?

The one advantage of renting is being free of most maintenance responsibilities. But by renting, you lose the chance to build equity, take advantage of tax benefits and protect yourself from rent increases. When you make a mortgage payment, you are building equity and that's an investment. Given the freedom, stability and security of owning your own home, they are worth it.

### How do I select the right real estate agent?

Start by asking family and friends. Look for an agent that listens well, understands your needs and whose judgment you trust. The agent should know the local area well and have the resources and contacts to help you search. Overall, choose an agent that makes you feel comfortable and provides all the knowledge and services you need.

### How can I determine my housing needs before I begin the search?

Before you begin looking at homes, make a list of your priorities such as location, size, schools and transportation. Your home should fit the way you live, with spaces and features that appeal to your family. Establish a set of minimum requirements and a wish list (those things that you like but aren't essential).

### What should I look for when deciding on a community?

Select a community that will allow you to best live your daily life. Are schools important to you? Transportation? Shopping? Freeway access? Talk to people that live there. More than anything, you want a neighborhood where you feel comfortable.

### Is an older home a better value than a new one?

There is no definitive answer. Generally, older homes may be in a more established neighborhood, offer more ambiance and have lower property tax rates. You should be prepared to make some repairs. Newer homes tend to use more modern architecture systems and are usually easier to maintain, may be more energy efficient and initially may require less upkeep and repairs.

### What should I look for when walking through a home?

Consider the following list of items:

- Is there enough room for both the present and the future?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?



- Do the mechanical systems and appliances work?
- Does anything need to be repaired or replaced?
- Do you like the floor plan/layout?
- Will your furniture fit in the space?
- Is there enough storage space?
- Is the yard big enough?

Take your time and think carefully about each house you visit.

### **What happens when I am ready to make an offer?**

Your real estate agent will assist you in making the offer, which will include the following information:

- complete legal description of the property
- amount of earnest money
- down payment and financing details
- price you are offering
- proposed closing date
- length of time the offer is valid
- any other details of the transaction deal

Remember, an actual sale depends on negotiating a satisfactory contract with the seller, not just making an offer.

### **What is earnest money?**

Earnest money is money put down to demonstrate your good faith and seriousness about the home. It usually is between 1% and 5% of the purchase price. If your offer is accepted, the earnest money becomes part of your down payment and closing costs. If your offer is rejected, your money is returned back to you. If your offer is accepted and then you decide to not purchase the home, you may forfeit the entire amount of your earnest money.

### **What is a home warranty?**

Home warranties offer you protection for a specific period of time (usually one year) against potentially costly problems such as repairs on appliances or other systems not covered by homeowners insurance. Generally, the home warranty is paid for by the seller.

### **How do I choose a mortgage lender?**

Choose your mortgage lender carefully. Look for financial stability and a reputation for customer satisfaction. Be sure to choose a company that gives you helpful advice and makes you feel comfortable. Do some research and ask family and friends for recommendations.

### **How are pre-qualifying and pre-approval different?**

Pre-qualification is an informal way to see how much you may be able to borrow. A mortgage lender gathers and verifies all of the information over the phone regarding your income, assets, liabilities and how large a down payment you can afford. No verification is made. On the other hand, when getting a pre-approval, the mortgage lender gathers all of the income, asset and liabilities in order to give a definite idea of what you can afford. Pre-approval shows you are serious about buying a home.

### **How do I choose the best loan program for me?**

Your personal situation will determine the best kind of loan program for you. Ask yourself the following questions:



- Do you expect your finances to change over the next few years?
- How long do you plan on living in this home?
- Are you comfortable with the idea of a changing mortgage payment?
- Do you plan on a major lifestyle change (job transfer, retirement, addition/subtraction to the family) over the next few years?

Your mortgage lender can help you use your answers to these questions to determine which loan program best suits your needs.

#### **What responsibilities do I have during the loan process?**

After you apply for a loan, follow these simple steps:

- be sure to read and understand everything before you sign
- refuse to sign any blank documents
- do not buy property for someone else
- do not overstate your income or assets
- accurately report your liabilities/debts
- be truthful about your credit problems, both past and present
- be honest about your intentions to occupy the house
- do not provide false supporting documentation

#### **Who do I contact about information on my credit report?**

The following numbers and e-mail addresses should be used to contact any one of the three (3) major credit repositories:

Experian	1-800-682-7954	<a href="http://www.experian.com">www.experian.com</a>
Equifax	1-800-685-1111	<a href="http://www.equifax.com">www.equifax.com</a>
TransUnion	1-800-888-4213	<a href="http://www.transunion.com">www.transunion.com</a>

#### **What is the maximum FHA loan limit?**

FHA loan limits vary throughout the country and typically change on an annual basis.

#### **What happens if I cannot make my mortgage payment?**

Contact your mortgage lender as soon as possible. Clearly explain the situation and be prepared to provide some financial information.

#### **Are all mortgage loans assumable?**

No. All conventional and sub-prime/non-conforming loans are not assumable. FHA and VA loans may be assumable. Contact your mortgage lender for details.

#### **What is not included in my monthly debt ratios?**

All of the following items are not included when calculating monthly housing debt ratios and total debt ratios:

- food, beverages and meals
- transportation and auto expenses
- education



- medical and dental care
- clothing and grooming
- life and health insurance
- child care
- gifts and charity
- entertainment and recreation
- utility bills
- savings
- miscellaneous

**What do I do if I am denied/rejected for a loan?**

If you are not approved for a loan, be sure to find out why the mortgage lender was unable to grant you the loan. Some of the reasons may include insufficient income, inadequate documentation, lack of sufficient funds to close or a poor credit report. Federal law requires the mortgage lender to tell you in writing the specific reasons for the decision.

**Does filing for bankruptcy mean I can never buy a home?**

No. It usually takes at least two (2) years to re-establish good credit after discharge of the bankruptcy. Many mortgage lenders will give a second look/consideration after determining why a bankruptcy occurred. Was it an isolated incident (accident or illness) or living beyond your budget (too much debt and not enough discipline)?

**If my previous home has been foreclosed on, can I buy another one?**

Mortgage lenders may consider your loan application if it has been three (3) years since the foreclosure and you have re-established good credit. You can help your own cause by showing good financial management (i.e. saving money, keeping debts down and avoiding late payments).

**What happens if I don't have a credit history?**

Some potential homebuyers avoid credit because they don't want to be in debt. In such cases, mortgage lenders can develop credit histories from utility bills, telephone/cell phone bills and rent payments. If payments have been made on a regular, timely basis, then this alternative credit can be used to qualify for a loan.

**What do mortgage lenders look at when reviewing a loan?**

Mortgage lenders look closely at the 3 C's - credit, cash and collateral. Credit means you have borrowed money in the past and repaid those debts in full and on time. Cash means you have enough money for the down payment and closing costs. Collateral means the home you are financing has enough value to support the amount of money you are borrowing.

**Do I have to be a certain age to buy a home?**

Yes. You must be of legal age in your state to obtain a mortgage. The legal age in Michigan is 18.

**Can I buy a home if I am not a U.S. citizen?**

Legal permanent residents have as much right as anyone else to purchase a home. To verify status, permanent legal residents must have a "green card" or properly marked passport/visa to prove they have the legal right to work and remain in the U.S.



## REMEMBER THESE TIPS WHEN MORTGAGE SHOPPING

Shopping for a mortgage loan does not have to be any harder than shopping for another major consumer goods or services purchase. The same basic procedures and safeguards need to be applied. Consumers need to comparison shop and take the time to make sure they are dealing with a reputable company. Since mortgage lending is a regulated industry, consumers should take steps to determine if the broker or lender they are dealing with is licensed as required by law. Following are a few important steps to follow:

- Obtain a copy of your credit report by calling either Trans Union toll free at 800-632-1765, Experion toll free at 888-397-3742 or Equifax toll free at 800-685-1111. You can also obtain your credit report on the internet at [www.experion.com](http://www.experion.com) or at [www.credit.equifax.com](http://www.credit.equifax.com). The cost of the report will be about \$9.00.
- If there are significant errors on the report, call the toll free number and follow their procedure for correcting or providing notice of errors.
- Contact at least three mortgage lenders or brokers, with your selection based on recommendations from knowledgeable friends or acquaintances, from newspaper mortgage rate quotes or from research on the internet. You should call the Michigan regulator toll free at 877-999-6442 to check if a lender or broker has the required license or charter. You can also obtain licensing information at the regulator's website at [www.cis.state.mi.us/ofis](http://www.cis.state.mi.us/ofis).
- Authorize each lender to obtain your credit history which will include your credit score. You may be required to pay an application fee to proceed. Credit scores are given on lender-requested credit reports but are not always provided on consumer-requested reports. Ask the lender or broker what interest rate, points and annual percentage rate for which you may qualify. Generally, the higher your credit score the better the interest rate and annual percentage rate for which you will qualify.
- Ask the lender or broker with the lowest rate to provide you with a good faith estimate of the settlement fees and closing costs for which you would be responsible if you obtained the loan.
- Review the written good faith estimate to see the nature and amount of fees and costs that would be involved. Ask the lender or broker to explain any fees or costs that you do not understand.
- If you plan to pay off an existing mortgage with the new loan, make sure that you are not replacing a lower interest rate mortgage with a higher rate loan.

### KEY QUESTIONS TO ASK YOUR LENDER OR BROKER

- Is the quoted interest rate a fixed or variable rate?
- If variable, what index would be used as the basis for a change in the rate?
- What is the term to maturity of the loan and the penalty, if any, for an early payoff?
- Does the loan involve a balloon payment, which is a large payment at the end of the loan term that requires refinancing of the loan?
- How many points, if any, are required to produce the quoted rate?
- What fee, if any, is required to guarantee the quoted rate at closing?
- Will the actual fees and charges at closing be substantially similar to what is disclosed on the good faith estimate? If not, what are the differences likely to be and why?
- How long will it take for the lender to approve or deny the loan and, if approved, what is the time frame for the closing of the loan?



## **SITUATIONS TO AVOID**

- Do not sign any documents with blank spaces.
- Avoid any lender or broker that is pressuring you to make decisions by imposing deadlines on available special rates or loan terms.
- Try to avoid circumstances that would compel you to close on a non-purchase loan on a specified date because of obligations due or past due. Avoiding such circumstance gives the borrower the option of refusing to close if the interest rate and fees at closing are substantially higher than what was quoted earlier.
- Do not sign any documents that would place a lien on your home prior to the scheduled closing date of the loan.

The most important decision in the mortgage shopping process is to find a lender or broker that is knowledgeable and trustworthy. Consumers should check with the Michigan regulator to make sure the lender or broker is licensed and if there have been any consumer complaints. Consumers should also contact the Better Business Bureau for information on the broker or lender. Finally, consumers should inquire about the lender or broker association, if any, to which the lender or broker belongs. It is a sign of industry commitment.



## GLOSSARY OF TERMS

<b>Adjustable rate mortgage (ARM)</b>	A loan with an interest rate that is adjusted periodically based on changes in a pre-selected index such as US treasury securities. The interest rate on the loan may increase or decrease based on changes in overall interest rates
<b>Amortization</b>	The repayment of a loan with periodic payments of both principal and interest calculated to pay off a loan at the end of a fixed period of time
<b>Annual percentage rate (APR)</b>	The cost of credit expressed as an annual rate. It considers other charges besides interest such as origination fees and other closing costs. The APR allows borrowers to compare different types of mortgages based on the annual cost for each loan
<b>Appraisal</b>	A written estimate of the property's current market value completed by an impartial third party with knowledge of the local real estate markets
<b>Appreciation</b>	An increase in the value of a property due to changes in market conditions. Opposite of depreciation
<b>Assessment</b>	A local tax levied against a property for a specific purpose such as a sewer, streetlights or sidewalk
<b>Assignment</b>	The transfer of a mortgage from one individual to another
<b>Back end/total debt ratio</b>	The ratio of a borrowers total debt (including housing debt and other monthly obligations) divided by the gross monthly income
<b>Balloon mortgage</b>	A short term loan with fixed monthly payments for a set number of years. Payments are usually calculated based on a longer term. The loan does not pay down to zero at the end of the term but requires a final large payment (balloon payment) at the end of the term
<b>Bi-weekly mortgage</b>	A mortgage that requires payments to be made every two weeks instead of monthly
<b>Borrower</b>	An individual who applies for and receives funds in the form of a loan and is obligated to repay the loan in full under the terms of the loan
<b>Cap</b>	The maximum amount that an adjustable rate mortgage loan can change in an adjustment period (periodic cap or annual cap) or for the entire term of the loan (lifetime cap)
<b>Capacity</b>	The analysis of the borrower's ability to repay a loan based on income, assets and liabilities
<b>Capital improvement</b>	Any structure which is a permanent improvement to the property
<b>Character</b>	The analysis of the borrower's responsibility in repaying debts and the probability of a continuing source of income to repay those debts
<b>Compensating factors</b>	Factors that may be considered by a mortgage lender in the loan approval process even though a borrower may not meet all of the mortgage lenders underwriting standards



<b>Conventional loan</b>	A loan that is not part of any government program. It is neither insured by FHA or guaranteed by VA
<b>Counteroffer</b>	An offer by a mortgage lender to make a loan to a borrower under terms that are different from those requested by the borrower
<b>Credit bureau</b>	A clearinghouse for credit history information. The credit bureau gathers information about the consumers bill-paying habits along with public records and creates a file on each consumer. Other mortgage lenders can then obtain this information to use in the credit decision process
<b>Credit history</b>	A consumer history of the amount of credit used and pattern of repayment of the credit
<b>Credit report</b>	A report provided by a credit bureau detailing a borrower's credit history and used by a mortgage lender to determine the creditworthiness of the borrower
<b>Credit score</b>	A statistical method of predicting how likely a borrower is to repay a loan
<b>Debt</b>	Amounts owed by the borrower to others
<b>Default</b>	Failure to make loan payments as agreed
<b>Disclosures</b>	Information that is required by law to be provided to the borrower, usually in a specific format
<b>Equity</b>	Difference between the current market value of a property and the total debt on the property
<b>Escrow account</b>	Account held by the mortgage lender into which the borrower pays monthly installments for annual expenses such as property taxes and homeowners insurance. The mortgage lender disburses escrow account funds on behalf of the borrower when they come due
<b>FNMA (Federal National Mortgage Association/ Fannie Mae)</b>	Government agency that purchases conventional mortgage loans that meet its underwriting standards
<b>FHA (Federal Housing Administration)</b>	Government agency within the Department of Housing and Urban Development (HUD) that insures mortgage loans that meet its underwriting standards
<b>FHLMC (Federal Home Loan Mortgage Corporation/ Freddie Mac)</b>	Government agency that purchases conventional mortgage loans that meet its underwriting standards
<b>Fixed rate loan</b>	Mortgage loan with an interest rate that remains the same for the entire term of the loan
<b>Flood hazard area</b>	An area within a flood plain having a 1% or greater chance of flood occurrence in any given year
<b>Foreclosure</b>	A legal proceeding that takes property back in case of default so that it can be sold to pay off the outstanding debt
<b>Front end/ housing debt ratio</b>	The ratio of a borrowers total housing debt (excluding other monthly obligations) divided by the gross monthly income





<b>GNMA (Government National Mortgage Association/Ginnie Mae)</b>	Federal agency within the Department of Housing and Urban Development (HUD) that guarantees the timely payment of principal and interest for mortgage-backed securities of government loans
<b>Gift</b>	Funds given to a borrower by an immediate family member that do not have to be repaid
<b>Government loan</b>	A loan that is part of any government program. It may be insured by FHA or guaranteed by VA
<b>HUD</b>	The US Housing and Urban Development Department
<b>Interest</b>	Charge paid for borrowing money, calculated as a percentage of the remaining balance on the loan
<b>Interest rate</b>	Annual rate of interest on the loan
<b>Late payment</b>	Payment made after the due date of the loan
<b>Loan to value (LTV)</b>	Ratio of the amount of the mortgage loan divided by the lesser of the appraised value or sales price of the property
<b>Margin</b>	A percentage added to the pre-selected index rate to determine the interest rate charged on an adjustable rate mortgage
<b>Mortgage</b>	A legal document by which property is pledged as security/collateral for the repayment of the loan
<b>Mortgage loan</b>	A loan for which real estate is used as collateral/security. Should a borrower fail to make payments on the loan, the real estate may be sold to provide for the repayment of the loan
<b>Note</b>	A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time
<b>P &amp; I</b>	Principal and interest
<b>PITI</b>	Principal, interest, taxes and insurance
<b>Points</b>	An amount that is charged up front to the borrower for a mortgage loan expressed as a percentage of the loan amount
<b>Principal</b>	The dollar amount of the loan, not including interest
<b>Secondary market</b>	Where mortgage lenders and investors come together to buy and sell mortgage loans
<b>Term</b>	The period of time between the beginning loan date on the legal documents and the date the entire balance of the loan is due
<b>Underwriting</b>	Process of analyzing a loan application and making a credit decision
<b>VA (Veterans Administration)</b>	Independent agency of the federal government authorized to administer a variety of programs including the guaranteeing of mortgage loans designed to make housing affordable for eligible US veterans



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