
100 Q & A
ABOUT BUYING A NEW HOME
hud

Dear Future Homeowner,

Homeownership is becoming a reality for more and more Americans. During 1998, the US homeownership rate reached 66.8%, the highest rate ever. Yet many Americans don't realize that homeownership is within their grasp.

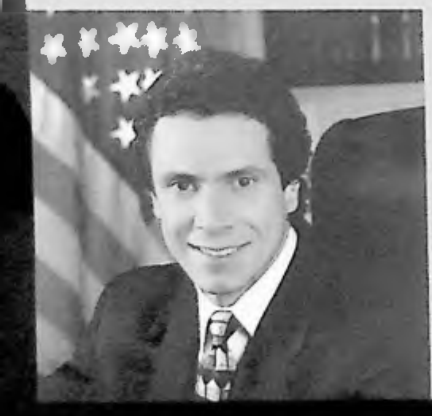
A home is a financial asset and more: it's a place to live and raise children; it's a plan for the future; it's an investment in your community. That's why we at the U.S. Department of Housing and Urban Development want all Americans to have an opportunity to enjoy the benefits of owning a home. And we are especially proud of our work to help first-time homebuyers: thanks to our special programs, more than 76% of FHA-insured loans went to first-time homebuyers during 1997.

Knowledge is said to open doors. This is literally true when it comes to buying a home. To become a first-time homebuyer, you need to know where and how to begin the homebuying process. The following questions and answers have been carefully selected to give you a foundation of basic knowledge. In addition to helping you begin, this brochure will give you the tools necessary to navigate the entire process – from deciding whether you're ready to buy, all the way to that final proud step, getting the keys to your new home.

Calling for this brochure was your first step. Now you can use this information to determine if you're ready to buy a home. If you are ready, contact a real estate agent, lender, or a housing counseling agency. They can help you decide your next step.

HUD's FHA has helped more than 26 million people become homeowners since 1934. We want to help you open the door to your own home. After all, HUD and FHA are on your side.

Good luck!



Sincerely,

Andrew Cuomo
Secretary
U.S. Department of Housing and Urban Development

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1. **How do I know if I'm ready to buy a home?**

You can find out by asking yourself some questions:

- Do I have a steady source of income (usually a job)? Have I been employed on a regular basis for the last 2-3 years? Is my current income reliable?
- Do I have a good record of paying my bills?
- Do I have few outstanding long-term debts, like car payments?
- Do I have money saved for a down payment?
- Do I have the ability to pay a mortgage every month, plus additional costs?

If you can answer "yes" to these questions, you are probably ready to buy your own home.

2. **How do I begin the process of buying a home?**

Start by thinking about your situation. Are you ready to buy a home? How much can you afford in a monthly mortgage payment (see Question 4 for help)? How much space do you need? What areas of town do you like? After you answer these questions, make a "To Do" list and start doing casual research. Talk to friends and family, drive through neighborhoods, and look in the "Homes" section of the newspaper.

3. **How does purchasing a home compare with renting?**

The two don't really compare at all. The one advantage of renting is being generally free of most maintenance responsibilities. But by renting, you lose the chance to build equity, take advantage of tax benefits, and protect yourself against rent increases. Also, you may not be free to decorate without permission and may be at the mercy of the landlord for housing.

Owning a home has many benefits. When you make a mortgage payment, you are building equity. And that's an investment. Owning a home also qualifies you for tax breaks that assist you in dealing with your new financial responsibilities– like insurance, real estate taxes, and upkeep– which can be substantial. But given the freedom, stability, and security of owning your own home, they are worth it.

4. **How does the lender decide the maximum loan amount that I can afford?**

The lender considers your debt-to-income ratio, which is a comparison of your gross (pre-tax) income to housing and non-housing expenses. Non-housing expenses include such long-term debts as car or student loan payments, alimony, or child support. According to the FHA,

monthly mortgage payments should be no more than 29% of gross income, while the mortgage payment, combined with non-housing expenses, should total no more than 41% of income. The lender also considers cash available for down payment and closing costs, credit history, etc. when determining your maximum loan amount.

See the chart on the bottom of the page for a quick calculation exercise.

5. HOW DO I SELECT THE RIGHT REAL ESTATE AGENT?

Start by asking family and friends if they can recommend an agent. Compile a list of several agents and talk to each before choosing one. Look for an agent who listens well and understands your needs, and whose judgment you trust. The ideal agent knows the local area well and has resources and contacts to help you in your search. Overall, you want to choose an agent that makes you feel comfortable and can provide all the knowledge and services you need.

6. HOW CAN I DETERMINE MY HOUSING NEEDS BEFORE I BEGIN THE SEARCH?

Your home should fit the way you live, with spaces and features that appeal to the whole family. Before you begin looking at homes, make a list of your priorities – things like location and size. Should the house be close to certain schools? your job? to public transportation? How large should the house be? What type of lot do you prefer? What kinds of amenities are you looking for? Establish a set of minimum requirements and a "wish list." Minimum requirements are things that a house must have for you to consider it, while a "wish list" covers things that you'd like to have but aren't essential.

QUICK CALCULATION EXERCISE

Gross Annual Income	Gross Monthly Income	29% Available for Housing
$15,000	$1,250	$363
$20,000	$1,667	$483
$25,000	$2,083	$604
$30,000	$2,500	$725
$35,000	$2,917	$846
$40,000	$3,333	$967
$45,000	$3,750	$1,088
$50,000	$4,167	$1,208

7. WHAT SHOULD I LOOK FOR WHEN DECIDING ON A COMMUNITY?

Select a community that will allow you to best live your daily life. Many people choose communities based on schools. Do you want access to shopping and public transportation? Is access to local facilities like libraries and museums important to you? Or do you prefer the peace and quiet of a rural community? When you find places that you like, talk to people that live there. They know the most about the area and will be your future neighbors. More than anything, you want a neighborhood where you feel comfortable.

8. WHAT SHOULD I DO IF I'M FEELING EXCLUDED FROM CERTAIN NEIGHBORHOODS?

Immediately contact the U.S. Department of Housing and Urban Development (HUD) if you ever feel excluded from a neighborhood or particular house. Also, contact HUD if you believe you are being discriminated against on the basis of race, color, religion, sex, nationality, familial status, or disability. HUD's Office of Fair Housing has a hotline for reporting incidents of discrimination: 1-800-669-9777 (and 1-800-927-9275 for the hearing impaired).

9. HOW CAN I FIND OUT ABOUT LOCAL SCHOOLS?

You can get information about school systems by contacting the city or county school board or the local schools. Your real estate agent may also be knowledgeable about schools in the area.

10. HOW CAN I FIND OUT ABOUT COMMUNITY RESOURCES?

Contact the local chamber of commerce for promotional literature or talk to your real estate agent about welcome kits, maps, and other information. You may also want to visit the local library. It can be an excellent source for information on local events and resources, and the librarians will probably be able to answer many of the questions you have.

11. HOW CAN I FIND OUT HOW MUCH HOMES ARE SELLING FOR IN CERTAIN COMMUNITIES AND NEIGHBORHOODS?

Your real estate agent can give you a ballpark figure by showing you comparable listings. If you are working with a REALTOR®, they may have access to comparable sales maintained on a database.

12. How can I find information on the property tax liability?

The total amount of the previous year's property taxes is usually included in the listing information. If it's not, ask the seller for a tax receipt or contact the local assessor's office. Tax rates can change from year to year, so these figures may be approximate.

13. What other tax issues should I take into consideration?

Keep in mind that your mortgage interest and real estate taxes will be deductible. A qualified real estate professional can give you more details on other tax benefits and liabilities.

14. Is an older home a better value than a new one?

There isn't a definitive answer to this question. You should look at each home for its individual characteristics. Generally, older homes may be in more established neighborhoods, offer more ambiance, and have lower property tax rates. People who buy older homes, however, shouldn't mind maintaining their home and making some repairs. Newer homes tend to use more modern architecture and systems, are usually easier to maintain, and may be more energy-efficient. People who buy new homes often don't want to worry initially about upkeep and repairs.

15. What should I look for when walking through a home?

In addition to comparing the home to your minimum requirement and wish lists, use the HUD Home Scorecard and consider the following:

- 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?
- Is the yard big enough?
- Do you like the floor plan?
- Will your furniture fit in the space? Is there enough storage space? (Bring a tape measure to better answer these questions.)

- Does anything need to be repaired or replaced? Will the seller repair or replace the items?
- Imagine the house in good weather and bad, and in each season. Will you be happy with it year 'round?

Take your time and think carefully about each house you see. Ask your real estate agent to point out the pros and cons of each home from a professional standpoint. Using the HUD Home Scorecard to keep track of the homes you see is a great way to keep organized.

(Refer to the HUD Home Scorecard on the following two pages.)

16. What questions should I ask when looking at homes?

Many of your questions should focus on potential problems and maintenance issues. Does anything need to be replaced? What things require ongoing maintenance (e.g., paint, roof, HVAC, appliances, carpet)? Also ask about the house and neighborhood, focusing on quality of life issues. Be sure the seller's or real estate agent's answers are clear and complete. Ask questions until you understand all of the information they've given. Making a list of questions ahead of time will help you organize your thoughts and arrange all of the information you receive. The HUD Home Scorecard can help you develop your question list.

17. How can I keep track of all the homes I see?

If possible, take photographs of each house: the outside, the major rooms, the yard, and extra features that you like or ones you see as potential problems. And don't hesitate to return for a second look. Use the HUD Home Scorecard to organize your photos and notes for each house.

18. How many homes should I consider before choosing one?

There isn't a set number of houses you should see before you decide. Visit as many as it takes to find the one you want. On average, homebuyers see 15 houses before choosing one. Just be sure to communicate often with your real estate agent about everything you're looking for. It will help avoid wasting your time.

HUD HOME SCORECARD

Basic Information

Home address ______

General description ______

Asking price ______ Taxes ______

Total sq. footage ______ Lot size ______

Age ______ No. of Bed/Bath ______

Interior

Rooms	Size	Features
Living Room		
Kitchen		
Dining Room		
Master Bedroom		
Bedroom 2		
Addt'l Bedrooms		
Bathroom(s)		
Closets		
Basement/Attic		
Laundry Area		
Storage		
Other		

Appliances

Condition & Comments

Stove/Oven ______

Refrigerator ______

Dishwasher ______

Garbage disposal ______

Other ______

HVAC

Heat type

Forced air, heat pump, baseboard, radiators, etc. ______

System age/condition ______

Heat source ______

Electric, gas, oil ______

Air Conditioning Type: ______

HUD HOME SCORECARD

Exterior

Condition

Surface (Wood, Stucco, Brick, Siding, etc.) ______

Comments ______

Gutters ______

Yard

Comments ______

Natural features ______

Landscaping ______

Additional Features

Porch, Deck, Patio, etc. ______

Garage/Carport ______

Neighborhood

Location/Community ______

Close to:

Work ______

Schools or Daycare ______

Other ______

Water source (City or Well) ______

Sewer or Septic ______

Trash pickup ______

Emergency services

Police station ______

Fire station ______

Hospital ______


Q&A

19. What does a home inspector do, and how does an inspection figure in the purchase of a home?

An inspector checks the safety of your potential new home. Home inspectors focus especially on the structure, construction, and mechanical systems of the house and will make you aware of any repairs that are needed.

The inspector does not evaluate whether or not you're getting good value for your money. Generally, an inspector checks (and gives prices for repairs on): the electrical system, plumbing and waste disposal, the water heater, insulation and ventilation, the HVAC system, water source and quality, the potential presence of pests, the foundation, doors, windows, ceilings, walls, floors, and roof. Be sure to hire a home inspector that is qualified and experienced.

It's a good idea to have an inspection before you sign a written offer since, once the deal is closed, you've bought the house "as is." Or, you may want to include an inspection clause in the offer when negotiating for a home. An inspection clause gives you an "out" on buying the house if serious problems are found, or gives 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.

20. Do I need to be there for the inspection?

It's not required, but it's a good idea. Following the inspection, the home inspector will be able to answer questions about the report and any problem areas. This is also an opportunity to hear an objective opinion on the home you'd like to purchase and it is a good time to ask general maintenance questions.

21. Are other types of inspections required?

If your home inspector discovers a serious problem, another more specific inspection may be recommended. It's a good idea to consider having your home inspected for the presence of a variety of health-related risks like radon gas, asbestos, or possible problems with the water or waste disposal system.

22. **How can I protect my family from lead in the home?**

If the house you're considering was built before 1978 and you have children under the age of seven, you will want to have an inspection for lead-based paint. It's important to know that lead flakes from paint can be present in both the home and in the soil surrounding the house. The problem can be fixed temporarily by repairing damaged paint surfaces or planting grass over effected soil. Hiring a lead abatement contractor to remove paint chips and seal damaged areas will fix the problem permanently.

23. **Are power lines a health hazard?**

There are no definitive research findings that indicate exposure to power lines results in greater instances of disease or illness.

24. **Do I need a lawyer to buy a home?**

Laws vary by state. Some states require a lawyer to assist in several aspects of the home buying process while other states do not, as long as a qualified real estate professional is involved. Even if your state doesn't require one, you may want to hire a lawyer to help with the complex paperwork and legal contracts. A lawyer can review contracts, make you aware of special considerations, and assist you with the closing process. Your real estate agent may be able to recommend a lawyer. If not, shop around. Find out what services are provided for what fee, and whether the attorney is experienced at representing homebuyers.

25. **Do I really need homeowner's insurance?**

Yes. A paid homeowner's insurance policy (or a paid receipt for one) is required at closing, so arrangements will have to be made prior to that day. Plus, involving the insurance agent early in the home buying process can save you money. Insurance agents are a great resource for information on home safety and they can give tips on how to keep insurance premiums low.

26. **What steps could I take to lower my homeowner's insurance costs?**

Be sure to shop around among several insurance companies. Also, consider the cost of insurance when you look at homes. Newer homes and homes constructed with materials like brick tend to have lower premiums. Think about avoiding areas prone to natural disasters, like flooding. Choose a home with a fire hydrant or a fire department nearby.

Other ways to lower insurance costs include insuring your home and car(s) with the same company, increasing home security, and seeking group coverage through alumni or business associations. Insurance costs are always lowered by raising your deductibles, but this exposes you to a higher out-of-pocket cost if you have to file a claim.

27. Is the home located in a flood plain?

Your real estate agent or lender can help you answer this question. If you live in a flood plain, the lender will require that you have flood insurance before lending any money to you. But if you live near a flood plain, you may choose whether or not to get flood insurance coverage for your home. Work with an insurance agent to construct a policy that fits your needs.

28. What other issues should I consider before I buy my home?

Always check to see if the house is in a low-lying area, in a high-risk area for natural disasters (like earthquakes, hurricanes, tornadoes, etc.), or in a hazardous materials area. Be sure the house meets building codes. Also consider local zoning laws, which could affect remodeling or making an addition in the future. Your real estate agent should be able to help you with these questions.

29. How do I make an offer?

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

- Complete legal description of the property
- Amount of earnest money
- Down payment and financing details
- Proposed move-in date
- Price you are offering
- Proposed closing date
- Length of time the offer is valid
- Details of the deal

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

30. How do I determine the initial offer?

Unless you have a buyer's agent, remember that the agent works for the seller. Make a point of asking him or her to keep your discussions and information confidential. Listen to your real estate agent's advice, but follow your own instincts on deciding a fair price. Calculating your offer should involve several factors: what homes sell for in the area, the home's condition, how long it's been on the market, financing terms, and the seller's situation. By the time you're ready to make an offer, you should have a good idea of what the home is worth and what you can afford. And, be prepared for give-and-take negotiation, which is very common when buying a home. The buyer and seller may often go back and forth until they can agree on a price.

31. What is earnest money? How much should I set aside?

Earnest money is money put down to demonstrate your seriousness about buying a home. It must be substantial enough to demonstrate good faith and is usually between 1-5% of the purchase price (though the amount can vary with local customs and conditions). If your offer is accepted, the earnest money becomes part of your down payment or closing costs. If the offer is rejected, your money is returned to you. If you back out of a deal, you may forfeit the entire amount.

32. What are "home warranties," and should I consider them?

Home warranties offer you protection for a specific period of time (e.g., one year) against potentially costly problems, like unexpected repairs on appliances or home systems, which are not covered by homeowner's insurance. Warranties are becoming more popular because they offer protection during the time immediately following the purchase of a home, a time when many people find themselves cash-strapped.

33. What is a mortgage?

Generally speaking, a mortgage is a loan obtained to purchase real estate. The "mortgage" itself is a lien (a legal claim) on the home or property that secures the promise to pay the debt. All mortgages have two features in common: principal and interest.

34. What is a loan-to-value (LTV) ratio? How does it determine the size of my loan?

The LTV ratio is the amount of money you borrow compared with the price or appraised value of the home you are purchasing. Each loan has a specific LTV limit. For example: with a 95% LTV loan on a home priced at $50,000, you could borrow up to $47,500 (95% of $50,000), and would have to pay $2,500 as a down payment.

The LTV ratio reflects the amount of equity borrowers have in their homes. The higher the LTV ratio, the less cash homebuyers are required to pay out of their own funds. So, to protect lenders against potential loss in case of default, higher LTV loans (80% or more) usually require a mortgage insurance policy.

35. What types of loans are available and what are the advantages of each?

Fixed Rate Mortgages: Payments remain the same for the life of the loan

Types

- 15-year
- 30-year

Advantages

- Predictable
- Housing cost remains unaffected by interest rate changes and inflation

Adjustable Rate Mortgages (ARMs): Payments increase or decrease on a regular schedule with changes in interest rates; increases subject to limits

Types

- **Balloon Mortgage**- Offers very low rates for an initial period of time (usually 5, 7, or 10 years); when time has elapsed, the balance is due or refinanced (though not automatically)
- **Two-Step Mortgage**- Interest rate adjusts only once and remains the same for the life of the loan

- ARMs linked to a specific index or margin

Advantages

- Generally offer lower initial interest rates
- Monthly payments can be lower
- May allow borrower to qualify for a larger loan amount

36. WHEN DO ARMS MAKE SENSE?

An ARM may make sense if you are confident that your income will increase steadily over the years or if you anticipate a move in the near future and aren't concerned about potential increases in interest rates.

37. WHAT ARE THE ADVANTAGES OF 15- AND 30-YEAR LOAN TERMS?

30-Year:

- In the first 23 years of the loan, more interest is paid off than principal, meaning larger tax deductions.
- As inflation and costs of living increase, mortgage payments become a smaller part of overall expenses.

15-year:

- Loan is usually made at a lower interest rate.
- Equity is built faster because early payments pay more principal.

38. Can I pay off my loan ahead of schedule?

Yes. By sending in extra money each month or making an extra payment at the end of the year, you can accelerate the process of paying off the loan. When you send extra money, be sure to indicate that the excess payment is to be applied to the principal. Most lenders allow loan prepayment, though you may have to pay a prepayment penalty to do so. Ask your lender for details.

39. Are there special mortgages for first-time homebuyers?

Yes. Lenders now offer several affordable mortgage options which can help first-time homebuyers overcome obstacles that made purchasing a home difficult in the past. Lenders may now be able to help borrowers who don't have a lot of money saved for the down payment and closing costs, have no or a poor credit history, have quite a bit of long-term debt, or have experienced income irregularities.

40. How large of a down payment do I need?

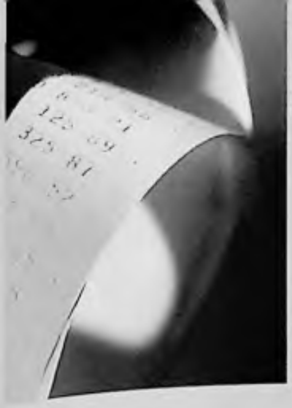
There are mortgage options now available that only require a down payment of 5% or less of the purchase price. But the larger the down payment, the less you have to borrow, and the more equity you'll have. Mortgages with less than a 20% down payment generally require a mortgage insurance policy to secure the loan. When considering the size of your down payment, consider that you'll also need money for closing costs, moving expenses, and – possibly – repairs and decorating.

41. What is included in a monthly mortgage payment?

The monthly mortgage payment mainly pays off principal and interest. But most lenders also include local real estate taxes, homeowner's insurance, and mortgage insurance (if applicable).

42. What factors affect mortgage payments?

The amount of the down payment, the size of the mortgage loan, the interest rate, the length of the repayment term and payment schedule will all affect the size of your mortgage payment.



43. HOW DOES THE INTEREST RATE FACTOR IN SECURING A MORTGAGE LOAN?

A lower interest rate allows you to borrow more money than a high rate with the same monthly payment. Interest rates can fluctuate as you shop for a loan, so ask lenders if they offer a rate "lock-in" which guarantees a specific interest rate for a certain period of time. Remember that a lender must disclose the Annual Percentage Rate (APR) of a loan to you. The APR shows the cost of a mortgage loan by expressing it in terms of a yearly interest rate. It is generally higher than the interest rate because it also includes the cost of points, mortgage insurance, and other fees included in the loan.

44. WHAT HAPPENS IF INTEREST RATES DECREASE AND I HAVE A FIXED RATE LOAN?

If interest rates drop significantly, you may want to investigate refinancing. Most experts agree that if you plan to be in your house for at least 18 months and you can get a rate 2% less than your current one, refinancing is smart. Refinancing may, however, involve paying many of the same fees paid at the original closing, plus origination and application fees.

45. WHAT ARE DISCOUNT POINTS?

Discount points allow you to lower your interest rate. They are essentially prepaid interest, with each point equaling 1% of the total loan amount. Generally, for each point paid on a 30-year mortgage, the interest rate is reduced by 1/8 (or .125) of a percentage point. When shopping for loans, ask lenders for an interest rate with 0 points and then see how much the rate decreases with each point paid. Discount points are smart if you plan to stay in a home for some time since they can lower the monthly loan payment. Points are tax deductible when you purchase a home and you may be able to negotiate for the seller to pay for some of them.

46. WHAT IS AN ESCROW ACCOUNT? DO I NEED ONE?

Established by your lender, an escrow account is a place to set aside a portion of your monthly mortgage payment to cover annual charges for homeowner's insurance, mortgage insurance (if applicable), and property taxes. Escrow accounts are a good idea because they assure money will always be available for these payments. If you use an escrow account to pay property taxes or homeowner's insurance, make sure you are not penalized for late payments since it is the lender's responsibility to make those payments.

47. WHAT STEPS NEED TO BE TAKEN TO SECURE A LOAN?

The first step in securing a loan is to complete a loan application. To do so, you'll need the following information:

- Pay stubs for the past 2-3 months
- W-2 forms for the past 2 years
- Information on long-term debts
- Recent bank statements
- Tax returns for the past 2 years
- Proof of any other income
- Address and description of the property you wish to buy
- Sales contract

During the application process, the lender will order a report on your credit history and a professional appraisal of the property you want to purchase. The application process typically takes between 1-6 weeks.

48. HOW DO I CHOOSE THE RIGHT LENDER FOR ME?

Choose your lender carefully. Look for financial stability and a reputation for customer satisfaction. Be sure to choose a company that gives helpful advice and that makes you feel comfortable. A lender that has the authority to approve and process your loan locally is preferable, since it will be easier for you to monitor the status of your application and ask questions. Plus, it's beneficial when the lender knows home values and conditions in the local area. Do research and ask family, friends, and your real estate agent for recommendations.

49. HOW ARE PRE-QUALIFYING AND PRE-APPROVAL DIFFERENT?

Pre-qualification is an informal way to see how much you may be able to borrow. You can be "pre-qualified" over the phone with no paperwork by telling a lender your income, your long-term debts, and how large a down payment you can afford. Without any obligation, this helps you arrive at a ballpark figure of the amount you may have available to spend on a house.

Pre-approval is a lender's actual commitment to lend to you. It involves assembling the financial records mentioned in Question 47 (without the property description and sales contract) and going through a preliminary approval process. Pre-approval gives you a definite idea of what you can afford and shows sellers that you are serious about buying.

50. HOW CAN I FIND OUT INFORMATION ABOUT MY CREDIT HISTORY?

There are three major credit reporting companies: Equifax, Experian, and Trans Union. Obtaining your credit report is as easy as calling and requesting one. Once you receive the report, it's important to verify its accuracy. Double check the "high credit limit," "total loan," and "past due" columns. It's a good idea to get copies from all three companies to assure there are no mistakes since any of the three could be providing a report to your lender. Fees, ranging from $5-$20, are usually charged to issue credit reports but some states permit citizens to acquire a free one. Contact the reporting companies at the numbers listed for more information.

CREDIT REPORTING COMPANIES

Company Name	Phone Number
Experian	1-800-682-7654
Equifax	1-800-685-1111
Trans Union	1-800-916-8800

51. WHAT IF I FIND A MISTAKE IN MY CREDIT HISTORY?

Simple mistakes are easily corrected by writing to the reporting company, pointing out the error, and providing proof of the mistake. You can also request to have your own comments added to explain problems. For example, if you made a payment late due to illness, explain that for the record. Lenders are usually understanding about legitimate problems.

52. WHAT IS A CREDIT BUREAU SCORE AND HOW DO LENDERS USE THEM?

A credit bureau score is a number, based upon your credit history, that represents the possibility that you will be unable to repay a loan. Lenders use it to determine your ability to qualify for a mortgage loan. The better the score, the better your chances are of getting a loan. Ask your lender for details.

53. HOW CAN I IMPROVE MY SCORE?

There are no easy ways to improve your credit score, but you can work to keep it acceptable by maintaining a good credit history. This means paying your bills on time and not overextending yourself by buying more than you can afford.

54. How do I choose the best loan program for me?

Your personal situation will determine the best kind of loan for you. By asking yourself a few questions, you can help narrow your search among the many options available and discover which loan suits you best.

- Do you expect your finances to change over the next few years?
- Are you planning to live in this home for a long period of time?
- Are you comfortable with the idea of a changing mortgage payment amount?
- Do you wish to be free of mortgage debt as your children approach college age or as you prepare for retirement?

Your lender can help you use your answers to questions such as these to decide which loan best fits your needs.

55. What is the best way to compare loan terms between lenders?

First, devise a checklist for the information from each lending institution. You should include the company's name and basic information, the type of mortgage, minimum down payment required, interest rate and points, closing costs, loan processing time, and whether prepayment is allowed.

Speak with companies by phone or in person. Be sure to call every lender on the list the same day, as interest rates can fluctuate daily. In addition to doing your own research, your real estate agent may have access to a database of lender and mortgage options. Though your agent may primarily be affiliated with a particular lending institution, he or she may also be able to suggest a variety of different lender options to you.

56. Are there any costs or fees associated with the loan origination process?

Yes. When you turn in your application, you'll be required to pay a loan application fee to cover the costs of underwriting the loan. This fee pays for the home appraisal, a copy of your credit report, and any additional charges that may be necessary. The application fee is generally non-refundable.

57. What is RESPA?

RESPA stands for Real Estate Settlement Procedures Act. It requires lenders to disclose information to potential customers throughout the mortgage process. By doing so, it protects borrowers from abuses by lending institutions. RESPA mandates that lenders fully inform borrowers about all closing costs, lender servicing and escrow account practices, and business relationships between closing service providers and other parties to the transaction.

For more information on RESPA, visit the web page at http://www.hud.gov/fha/res/respa_hm.html or call 1-800-217-6970 for a local counseling referral.

58. WHAT IS A GOOD FAITH ESTIMATE, AND HOW DOES IT HELP ME?

It's an estimate that lists all fees paid before closing, all closing costs, and any escrow costs you will encounter when purchasing a home. The lender must supply it within three days of your application so that you can make accurate judgments when shopping for a loan.

59. BESIDES RESPA, DOES THE LENDER HAVE ANY ADDITIONAL RESPONSIBILITIES?

Lenders are not allowed to discriminate in any way against potential borrowers. If you believe a lender is refusing to provide his or her services to you on the basis of race, color, nationality, religion, sex, familial status, or disability, contact HUD's Office of Fair Housing at 1-800-669-9777 (or 1-800-927-9275 for the hearing impaired).

60. WHAT RESPONSIBILITIES DO I HAVE DURING THE LENDING PROCESS?

To ensure you won't fall victim to loan fraud, be sure to follow all of these steps as you apply for a loan:

- 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.
- Do not overstate how long you have been employed.
- Do not overstate your assets.
- Accurately report your debts.
- Do not change your income tax returns for any reason.
- Tell the whole truth about gifts.
- Do not list fake co-borrowers on your loan application.

- Be truthful about your credit problems, past and present.
- Be honest about your intention to occupy the house.
- Do not provide false supporting documents.

61. What happens after I've applied for my loan?

It usually takes a lender between 1-6 weeks to complete the evaluation of your application. It's not unusual for the lender to ask for more information once the application has been submitted. The sooner you can provide the information, the faster your application will be processed. Once all the information has been verified, the lender will call you to let you know the outcome of your application. If the loan is approved, a closing date is set up and the lender will review the closing process with you. And after closing, you'll be able to move into your new home.

62. What should I look out for during the final walk–through?

This will likely be the first opportunity to examine the house without furniture, giving you a clear view of everything. Check the walls and ceilings carefully, as well as any work the seller agreed to do in response to the inspection. Any problems discovered previously that you find uncorrected should be brought up prior to closing. It is the seller's responsibility to fix them.

63. What make up closing costs?

There may be closing costs customary or unique to a certain locality, but closing costs are usually made up of the following:

- Attorney's or escrow fees (yours and your lender's if applicable)
- Property taxes (to cover tax period to date)
- Interest (paid from date of closing to 30 days before first monthly payment)
- Loan origination fee (covers lender's administrative costs)
- Recording fees
- Survey fee
- First premium of mortgage insurance (if applicable)
- Title insurance (yours and your lender's)

- Loan discount points
- First payment to escrow account for future real estate taxes and insurance
- Paid receipt for homeowner's insurance policy (and fire and flood insurance if applicable)
- Any documentation preparation fees

64. What-can I expect to happen on closing day?

You'll present your paid homeowner's insurance policy or a binder and receipt showing that the premium has been paid. The closing agent will then list the money you owe the seller (remainder of down payment, prepaid taxes, etc.) and then the money the seller owes you (unpaid taxes and prepaid rent, if applicable). The seller will provide proofs of any inspection, warranties, etc.

Once you're sure you understand all the documentation, you'll sign the mortgage, agreeing that if you don't make payments the lender is entitled to sell your property and apply the sale price against the amount you owe plus expenses. You'll also sign a mortgage note, promising to repay the loan. The seller will give you the title to the house in the form of a signed deed.

You'll pay the lender's agent all closing costs and, in turn,he or she will provide you with a settlement statement of all the items for which you have paid. The deed and mortgage will then be recorded in the state Registry of Deeds, and you will be a homeowner.

65. What do I get at closing?

- Settlement Statement, HUD-1 Form (itemizes services provided and the fees charged; it is filled out by the closing agent and must be given to you at or before closing)
- Truth-in-Lending Statement
- Mortgage Note
- Mortgage or Deed of Trust
- Binding Sales Contract (prepared by the seller; your lawyer should review it)
- Keys to your new home

66. What is the U.S. Department of Housing and Urban Development?

Also known as HUD, the U.S. Department of Housing and Urban Development was established in 1965 to develop national policies and programs to address housing needs in the U.S. One of HUD's primary missions is to create a suitable living environment for all Americans by developing and improving the country's communities and enforcing fair housing laws.

67. How does HUD help homebuyers and homeowners?

HUD helps people by administering a variety of programs that develop and support affordable housing. Specifically, HUD plays a large role in homeownership by making loans available for lower- and moderate-income families through its FHA mortgage insurance program and its HUD Homes program. HUD owns homes in many communities throughout the U.S. and offers them for sale at attractive prices and economical terms.

68. What is the FHA?

Now an agency within HUD, the Federal Housing Administration was established in 1934 to advance opportunities for Americans to own homes. By providing private lenders with mortgage insurance, the FHA gives them the security they need to lend to first-time buyers who might not be able to qualify for conventional loans. The FHA has helped more than 26 million Americans buy a home.

69. How can the FHA assist me in buying a home?

The FHA works to make homeownership a possibility for more Americans. With the FHA, you don't need perfect credit or a high-paying job to qualify for a loan. The FHA also makes loans more accessible by requiring smaller down payments than conventional loans. In fact, an FHA down payment could be as little as a few months' rent. And your monthly payments may not be much more than rent.

70. How is the FHA funded?

Lender claims paid by the FHA mortgage insurance program are drawn from the Mutual Mortgage Insurance fund. This fund is made up of premiums paid by FHA-insured loan borrowers. No tax dollars are used to fund the program.

71.

Who can qualify for FHA loans?

Anyone who meets the credit requirements, can afford the mortgage payments and cash investment, and who plans to use the mortgaged property as a primary residence may apply for an FHA-insured loan.

72. What is the FHA loan limit?

FHA loan limits vary throughout the country, from $115,200 in low-cost areas to $208,800 in high-cost areas. The loan maximums for multi-unit homes are higher than those for single units and also vary by area.

Because these maximums are linked to the conforming loan limit and average area home prices, FHA loan limits are periodically subject to change. Ask your lender for details and confirmation of current limits.

73. What are the steps involved in the FHA loan process?

With the exception of a few additional forms, the FHA loan application process is similar to that of a conventional loan (see Question 47). With new automation measures, FHA loans may be originated more quickly than before. And, if you don't prefer a face-to-face meeting, you can apply for an FHA loan via mail, telephone, the Internet, or video conference.

74. How much income do I need to have to qualify for an FHA loan?

There is no minimum income requirement. But you must prove steady income for at least three years, and demonstrate that you've consistently paid your bills on time.

75. What qualifies as an income source for the FHA?

Seasonal pay, child support, retirement pension payments, unemployment compensation, VA benefits, military pay, Social Security income, alimony, and rent paid by family all qualify as income sources. Part-time pay, overtime, and bonus pay also count as long as they are steady. Special savings plans–such as those set up by a church or community association–qualify, too. Income type is not as important as income steadiness with the FHA.

76. Can I carry debt and still qualify for FHA loans?

Yes. Short-term debt doesn't count as long as it can be paid off within 10 months. And some regular expenses, like child care costs, are not considered debt. Talk to your lender or real estate agent about meeting the FHA debt-to-income ratio.

77. What is the debt-to-income ratio for FHA loans?

The FHA allows you to use 29% of your income towards housing costs and 41% towards housing expenses and other long-term debt. With a conventional loan, this qualifying ratio allows only 28% toward housing and 36% towards housing and other debt.

78. Can I exceed this ratio?

You may qualify to exceed if you have:

- a large down payment
- a demonstrated ability to pay more toward your housing expenses
- substantial cash reserves
- net worth enough to repay the mortgage regardless of income
- evidence of acceptable credit history or limited credit use
- less-than-maximum mortgage terms
- funds provided by an organization
- a decrease in monthly housing expenses

79. How large a down payment do I need with an FHA loan?

You must have a down payment of at least 3% of the purchase price of the home. Most affordable loan programs offered by private lenders require between a 3%-5% down payment, with a minimum of 3% coming directly from the borrower's own funds.

80. What can I use to pay the down payment and closing costs of an FHA loan?

Besides your own funds, you may use cash gifts or money from a private savings club. If you can do certain repairs and improvements yourself, your labor may be used as part of a down payment (called "sweat equity"). If you are doing a lease purchase, paying extra rent to the seller may also be considered the same as accumulating cash.

81. How does my credit history impact my ability to qualify?

The FHA is generally more flexible than conventional lenders in its qualifying guidelines. In fact, the FHA allows you to re-establish credit if:

- two years have passed since a bankruptcy has been discharged
- all judgments have been paid
- any outstanding tax liens have been satisfied or appropriate arrangements have been made to establish a repayment plan with the IRS or state Department of Revenue
- three years have passed since a foreclosure or a deed-in-lieu has been resolved

82. Can I qualify for an FHA loan without a credit history?

Yes. If you prefer to pay debts in cash or are too young to have established credit, there are other ways to prove your eligibility. Talk to your lender for details.

83. What types of closing costs are associated with FHA-insured loans?

Except for the addition of an FHA mortgage insurance premium, FHA closing costs are similar to those of a conventional loan outlined in Question 63. The FHA requires a single, up-front mortgage insurance premium equal to 2.25% of the mortgage to be paid at closing (or 1.75% if you complete the HELP program- see Question 91). This initial premium may be partially refunded if the loan is paid in full during the first seven years of the loan term. After closing, you will then be responsible for an annual premium — paid monthly — if your mortgage is over 15 years or if you have a 15-year loan with an LTV greater than 90%.

84. Can I roll closing costs into my FHA loan?

No. Though you can't roll closing costs into your FHA loan, you may be able to use the amount you pay for them to help satisfy the down payment requirement. Ask your lender for details.

85. Are FHA loans assumable?

Yes. You can assume an existing FHA-insured loan, or, if you are the one deciding to sell, allow a buyer to assume yours. Assuming a loan can be very beneficial, since the process is streamlined and less expensive compared to that for a new loan. Also, assuming a loan can often result in a lower interest rate. The application process consists basically of a credit check and no property appraisal is required. And you must demonstrate that you have enough income to support the mortgage loan. In this way, qualifying to assume a loan is similar to qualification requirements for a new one.

86. WHAT SHOULD I DO IF I CAN'T MAKE A PAYMENT ON MY LOAN?

Call or write to your lender as soon as possible. Clearly explain the situation and be prepared to provide him or her with financial information.

87. ARE THERE ANY OPTIONS IF I FALL BEHIND ON MY LOAN PAYMENTS?

Yes. Talk to your lender or a HUD-approved counseling agency for details. Listed below are a few options that may help you get back on track.

For FHA loans:

- Keep living in your home to qualify for assistance.
- Contact a HUD-approved housing counseling agency (1-800-569-4287 or TDD: 1-800-877-8339) and cooperate with the counselor/lender trying to help you.
- HUD has a number of special loss mitigation programs available to help you:
  - **Special Forbearance:** Your lender will arrange for a revised repayment plan which may include temporary reduction or suspension of payments; you can qualify by having an involuntary reduction in your income or increase in living expenses.
  - **Mortgage Modification:** Allows you to refinance debt and/or extend the term of the mortgage loan which may reduce your monthly payments; you can qualify if you have recovered from financial problems, but net income is less than before.
  - **Partial Claim:** Your lender may be able to help you obtain an interest-free loan from HUD to bring your mortgage current.
  - **Pre-foreclosure Sale:** Allows you to sell your property and pay off your mortgage loan to avoid foreclosure.
  - **Deed-in-lieu of Foreclosure:** Lets you voluntarily "give back" your property to the lender; it won't save your house but will help you avoid the costs, time, and effort of the foreclosure process.
- If you are having difficulty with an uncooperative lender or feel your loan servicer is not providing you with the most effective loss mitigation options, call the FHA Loss Mitigation Center at 1-888-297-8685 for additional help.

For conventional loans:

- Talk to your lender about specific loss mitigation options. Work directly with him or her to request a "workout packet." A secondary lender, like Fannie Mae or Freddie Mac, may have purchased your loan. Your lender can follow the appropriate guidelines set by Fannie or Freddie to determine the best option for your situation.

Fannie Mae does not deal directly with the borrower. They work with the lender to determine the loss mitigation program that best fits your needs.

Freddie Mac, like Fannie Mae, will usually only work with the loan servicer. However, if you encounter problems with your lender during the loss mitigation process, you can call customer service for help at 1-800-FREDDIE (1-800-373-3343).

In any loss mitigation situation, it is important to remember a few helpful hints:

- Explore every reasonable alternative to avoid losing your home, but beware of scams. For example, watch out for:

  Equity skimming: a buyer offers to repay the mortgage or sell the property if you sign over the deed and move out.

  Phony counseling agencies: offer counseling for a fee when it is often given at no charge.
- Don't sign anything you don't understand.

PART IX. MORTGAGE INSURANCE

88. WHAT IS MORTGAGE INSURANCE?

Mortgage insurance is a policy that protects lenders against some or most of the losses that result from defaults on home mortgages. It's required primarily for borrowers making a down payment of less than 20%.

89. HOW DOES MORTGAGE INSURANCE WORK? IS IT LIKE HOME OR AUTO INSURANCE?

Like home or auto insurance, mortgage insurance requires payment of a premium, is for protection against loss, and is used in the event of an emergency. If a borrower can't repay an insured mortgage loan as agreed, the lender may foreclose on the property and file a claim with the mortgage insurer for some or most of the total losses.

90. DO I NEED MORTGAGE INSURANCE? HOW DO I GET IT?

You need mortgage insurance only if you plan to make a down payment of less than 20% of the purchase price of the home. The FHA offers several loan programs that may meet your needs. Ask your lender for details.

91. HOW CAN I RECEIVE A DISCOUNT ON THE FHA INITIAL MORTGAGE INSURANCE PREMIUM?

Ask your real estate agent or lender for information on the HELP program from the FHA. HELP – Homebuyer Education Learning Program – is structured to help people like you begin the homebuying process. It covers such topics as budgeting, finding a home, getting a loan, and home maintenance. In most cases, completion of this program may entitle you to a reduction in the initial FHA mortgage insurance premium from 2.25% to 1.75% of the purchase price of your new home.

92. WHAT IS PMI?

PMI stands for Private Mortgage Insurance or Insurer. These are privately-owned companies that provide mortgage insurance. They offer both standard and special affordable programs for borrowers. These companies provide guidelines to lenders that detail the types of loans they will insure. Lenders use these guidelines to determine borrower eligibility. PMI's usually have stricter qualifying ratios and larger down payment requirements than the FHA, but their premiums are often lower and they insure loans that exceed the FHA limit.

93. WHAT IS A 203(b) LOAN?

This is the most commonly used FHA program. It offers a low down payment, flexible qualifying guidelines, limited lender's fees, and a maximum loan amount.

94. WHAT IS A 203(k) LOAN?

This is a loan that enables the homebuyer to finance both the purchase and rehabilitation of a home through a single mortgage. A portion of the loan is used to pay off the seller's existing mortgage and the remainder is placed in an escrow account and released as rehabilitation is completed. Basic guidelines for 203(k) loans are as follows:

- The home must be at least one year old.
- The cost of rehabilitation must be at least $5,000, but the total property value–including the cost of repairs–must fall within the FHA maximum mortgage limit.
- The 203(k) loan must follow many of the 203(b) eligibility requirements.
- Talk to your lender about specific improvement, energy efficiency, and structural guidelines.

95. WHAT IS AN ENERGY EFFICIENT MORTGAGE (EEM)?

The Energy Efficient Mortgage allows a homebuyer to save future money on utility bills. This is done by financing the cost of adding energy-efficiency features to a new or existing home as part of an FHA-insured home purchase. The EEM can be used with both 203(b) and 203(k) loans. Basic guidelines for EEMs are as follows:

- The cost of improvements must be determined by a Home Energy Rating System or by an energy consultant. This cost must be less than the anticipated savings from the improvements.
- One- and two-unit new or existing homes are eligible; condos are not.
- The improvements financed may be 5% of property value or $4,000, whichever is greater. The total must fall within the FHA loan limit.

96. WHAT IS THE FHA BRIDAL REGISTRY PROGRAM?

Just as you might register at a department store for wedding gifts, the Bridal Registry program allows couples to register with a lender and open up an interest-bearing account. Family and friends can deposit wedding gifts of cash into this account. These gifts can then be applied toward a down payment on a home. Ask your lender for details.

97. What is a Title I loan?

Given by a lender and insured by the FHA, a Title I loan is used to make non-luxury renovations and repairs to a home. It offers a manageable interest rate and repayment schedule. Loans are limited to between $5,000 and $20,000. If the loan amount is under $7,500, no lien is required against your home. Ask your lender for details.

98. What other loan products or programs does the FHA offer?

The FHA also insures loans for the purchase or rehabilitation of manufactured housing, condominiums, and cooperatives. It also has special programs for urban areas, disaster victims, and members of the armed forces. Insurance for ARMs is also available from the FHA.

99. How can I obtain an FHA-insured loan?

Contact an FHA-approved lender such as a participating mortgage company, bank, savings and loan association, or thrift. For more information on the FHA and how you can obtain an FHA loan, visit the HUD web site at http://www.hud.gov or call a HUD-approved counseling agency at 1-800-569-4287 or TDD: 1-800-877-8339.

100. How can I contact HUD?

Visit the web site at http://www.hud.gov or look in the phone book "blue pages" for a listing of the HUD office near you.

Q&A

203(b): FHA program which provides mortgage insurance to protect lenders from default; used to finance the purchase of new or existing one- to four-family housing; characterized by low down payment, flexible qualifying guidelines, limited fees, and a limit on maximum loan amount

203(k): this FHA mortgage insurance program enables homebuyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan

A

Amenity: a feature of the home or property that serves as a benefit to the buyer but that is not necessary to its use; may be natural (like location, woods, water) or man-made (like a swimming pool or garden)

Amortization: repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is based on a schedule that will allow you to own your home at the end of a specific time period (for example, 15 or 30 years)

Annual Percentage Rate (APR): calculated by using a standard formula, the APR shows the cost of a loan; expressed as a yearly interest rate, it includes the interest, points, mortgage insurance, and other fees associated with the loan

Application: the first step in the official loan approval process; this form is used to record important information about the potential borrower necessary to the underwriting process

Appraisal: a document that gives an estimate of a property's fair market value; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property

Appraiser: a qualified individual who uses his or her experience and knowledge to prepare the appraisal estimate

ARM: Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the change in monthly payment amount, however, is usually subject to a cap

Assessor: a government official who is responsible for determining the value of a property for the purpose of taxation

Assumable mortgage: a mortgage that can be transferred from a seller to a buyer; once the loan is assumed by the buyer, the seller is no longer responsible for repaying it; there may be a fee and/or a credit package involved in the transfer of an assumable mortgage

B

Balloon Mortgage: a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower

Bankruptcy: a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay

Borrower: a person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms

Bridal Registry: a program supported by the FHA that allows couples to open ("register" for) a bridal registry account into which family and friends can deposit gifts of cash; the funds in this account may then be used for a down payment on a house

Building code: based on agreed upon safety standards within a specific area, a building code is a regulation that determines the design, construction, and materials used in building

Budget: a detailed record of all income earned and spent during a specific period of time

C

Cap: a limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease

Cash reserves: a cash amount sometimes required to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender

Certificate of title: a document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims

Closing: also known as settlement, this is 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

Closing costs: customary costs above and beyond the sale 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 after submission of a loan application

Commission: an amount, usually a percentage of the property sales price, that is collected by a real estate professional as a fee for negotiating the transaction

Condominium: a form of ownership in which individuals purchase and own a unit of housing in a multi-unit complex; the owner also shares financial responsibility for common areas

Conventional loan: a private sector loan, one that is not guaranteed or insured by the U.S. government

Cooperative (Co-op): residents purchase stock in a cooperative corporation that owns a structure; each stockholder is then entitled to live in a specific unit of the structure and is responsible for paying a portion of the loan

Credit history: history of an individual's debt payment; lenders use this information to gauge a potential borrower's ability to repay a loan

Credit report: a record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history

Credit bureau score: a number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan

D

Debt-to-income ratio: a comparison of gross income to housing and non-housing expenses; with the FHA, the monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income

Deed: the document that transfers ownership of a property

Deed-in-lieu: to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure

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

Discount point: normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan

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

E

Earnest money: money put down by a potential buyer to show that he or she is serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal

EEM: Energy Efficient Mortgage; an FHA program that helps homebuyers save money on utility bills by enabling them to finance the cost of adding energy-efficiency features to a new or existing home as part of the home purchase

Equity: an owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loan(s) from the fair market value of the property

Escrow account: a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowner's insurance, mortgage insurance, etc.

F

Fair Housing Act: a law that prohibits discrimination in all facets of the homebuying process on the basis of race, color, national origin, religion, sex, familial status, or disability

Fair market value: the hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation

Fannie Mae: Federal National Mortgage Association (FNMA); a federally-chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors; by purchasing mortgages, Fannie Mae supplies funds that lenders may loan to potential homebuyers

FHA: Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages

Fixed-rate mortgage: a mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change

Flood insurance: insurance that protects homeowners against losses from a flood; if a home is located in a flood plain, the lender will require flood insurance before approving a loan

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

Freddie Mac: Federal Home Loan Mortgage Corporation (FHLM); a federally-chartered corporation that purchases residential mortgages, securitizes them, and sells them to investors; this provides lenders with funds for new homebuyers

G

Ginnie Mae: Government National Mortgage Association (GNMA); a government-owned corporation overseen by the U.S. Department of Housing and Urban Development, Ginnie Mae pools FHA-insured and VA-guaranteed loans to back securities for private investment; as with Fannie Mae and Freddie Mac, the investment income provides funding that may then be lent to eligible borrowers by lenders

Good faith estimate: an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application

H

HELP: Homebuyer Education Learning Program; an educational program from the FHA that counsels people about the homebuying process; HELP covers topics like budgeting, finding a home, getting a loan, and home maintenance; in most cases, completion of the program may entitle the homebuyer to a reduced initial FHA mortgage insurance premium–from 2.25% to 1.75% of the home purchase price

Home inspection: an examination of the structure and mechanical systems to determine a home's safety; makes the potential homebuyer aware of any repairs that may be needed

Home warranty: offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; coverage extends over a specific time period and does not cover the home's structure

Homeowner's insurance: an insurance policy that combines protection against damage to a dwelling and its contents with protection against claims of negligence or inappropriate action that result in someone's injury or property damage

Housing counseling agency: provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and homebuying

HUD: the U.S. Department of Housing and Urban Development; established in 1965, HUD works to create a decent home and suitable living environment for all Americans; it does this by addressing housing needs, improving and developing American communities, and enforcing fair housing laws

HUD-1 Statement: also known as the "settlement sheet," it itemizes all closing costs; must be given to the borrower at or before closing

HVAC: Heating, Ventilation and Air Conditioning; a home's heating and cooling system

I

Index: a measurement used by lenders to determine changes to the interest rate charged on an adjustable rate mortgage

Inflation: the number of dollars in circulation exceeds the amount of goods and services available for purchase; inflation results in a decrease in the dollar's value

Interest: a fee charged for the use of money

Interest rate: the amount of interest charged on a monthly loan payment; usually expressed as a percentage

Insurance: protection against a specific loss over a period of time that is secured by the payment of a regularly scheduled premium

J

Judgment: a legal decision; when requiring debt repayment, a judgment may include a property lien that secures the creditor's claim by providing a collateral source

L

Lease purchase: assists low- to moderate-income homebuyers in purchasing a home by allowing them to lease a home with an option to buy; the rent payment is made up of the monthly rental payment plus an additional amount that is credited to an account for use as a down payment

Lien: a legal claim against property that must be satisfied when the property is sold

Loan: money borrowed that is usually repaid with interest

Loan fraud: purposely giving incorrect information on a loan application in order to better qualify for a loan; may result in civil liability or criminal penalties

Loan-to-value (LTV) ratio: a percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment

Lock-in: since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time

Loss mitigation: a process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan

M

Margin: an amount the lender adds to an index to determine the interest rate on an adjustable rate mortgage

Mortgage: a lien on the property that secures the promise to repay a loan

Mortgage banker: a company that originates loans and resells them to secondary mortgage lenders like Fannie Mae or Freddie Mac

Mortgage broker: a firm that originates and processes loans for a number of lenders

Mortgage insurance: a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price

Mortgage insurance premium (MIP): a monthly payment – usually part of the mortgage payment – paid by a borrower for mortgage insurance

Mortgage Modification: a loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments

O

Offer: indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing

Origination: the process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal

Origination fee: the charge for originating a loan; is usually calculated in the form of points and paid at closing

P

Partial Claim: a loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up to date

PITI: Principal, Interest, Taxes and Insurance – the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due

PMI: Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price

Pre-approve: lender commits to lend to a potential borrower; commitment remains as long as the borrower still meets the qualification requirements at the time of purchase

Pre-foreclosure sale: allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure

Pre-qualify: a lender informally determines the maximum amount an individual is eligible to borrow

Premium: an amount paid on a regular schedule by a policyholder that maintains insurance coverage

Prepayment: payment of the mortgage loan before the scheduled due date; may be subject to a prepayment penalty

Principal: the amount borrowed from a lender; doesn't include interest or additional fees

R

Radon: a radioactive gas found in some homes that, if occurring in strong enough concentrations, can cause health problems

Real estate agent: an individual who is licensed to negotiate and arrange real estate sales; works for a real estate broker

REALTOR®: a real estate agent or broker who is a member of the NATIONAL ASSOCIATION OF REALTORS® and its local and state associations

Refinancing: paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate)

Rehabilitation mortgage: a mortgage that covers the costs of rehabilitating (repairing or improving) a property; some rehabilitation mortgages– like the FHA's 203(k) – allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan

RESPA: Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships

S

Settlement: another name for closing

Special Forbearance: a loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments

Subordinate: to place in a rank of lesser importance or to make one claim secondary to another

Survey: a property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc.

Sweat equity: using labor to build or improve a property as part of the down payment

T

Title I: an FHA-insured loan that allows a borrower to make non-luxury improvements (like renovations or repairs) to their home; Title I loans less than $7,500 don't require a property lien

Title insurance: insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers

Title search: a check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property

Truth-in-Lending: a federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan

Two-step mortgage: a type of adjustable rate mortgage that has one interest rate for a predetermined initial period and then adjusts to another rate that lasts for the term of the loan

U

Underwriting: the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value

V

VA: Department of Veterans Affairs: a federal agency which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default

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