
 <p>AMERICA</p>	
<p>Realizing <i>the</i> American Dream</p> <p>Getting a Mortgage Loan</p>	

Agenda

- Mortgage loan basics
- Who can get a mortgage loan?
- Affordability and you
- How much will a lender loan to you?
- Shopping for the right lender and product

Agenda

- Strategies for finding the right lender and loan product
- Working with a lender
- Steps the lender takes to approve your loan
- Your rights as a loan customer

Mortgage Loan Basics

- Promissory Note
- Mortgage or Deed of Trust
- Collateral
- Secured Loan

What Does a House Payment Include?

- Principal
- Interest
- Taxes
- Insurance

What Are the Steps in Getting a Loan?

- Research
- Pre-approval
- Loan application
- Loan processing
- Underwriting
- Approval
- Loan Closing

What Are the 4 Cs of Credit?

- Capital
- Capacity
- Credit History
- Collateral

Capital

- Down Payment
- Loan Fees
- Closing Costs
- Escrow Impounds
- Reserves
- Moving Expenses

Capacity

- Current income
- Income history and future earning potential
- Amount owed
 - Installment accounts
 - Revolving charge accounts
 - Other monthly payments

Credit

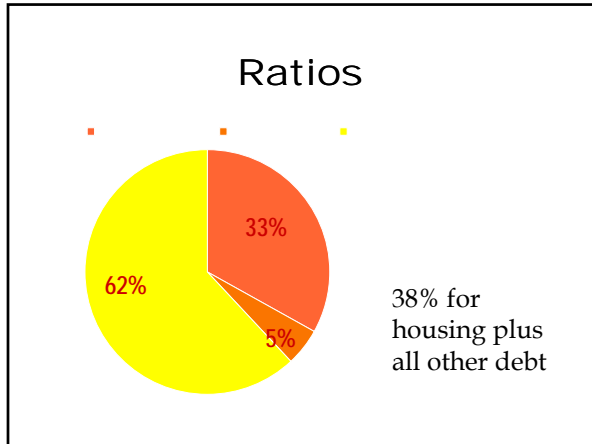
Do you pay your bills
regularly and on time?

Collateral

Is the house worth
what you are paying for it?

Ratios

- **Housing Ratio** = maximum % of gross monthly income that can be used for a monthly mortgage payment
- **Debt-to-Income Ratio** = maximum % of gross monthly income that can be used for the house payment plus all other debts



Interest Factor

- Shows the monthly payment on a \$1,000 loan at a given interest rate and for a given term
- Allows you to calculate monthly principal and interest payments from loan amounts, or loan amounts from monthly payments

$\$100,000/\$1,000 = 100 \times 7.34 \text{ (factor)} = \734
 $\$1,000/7.34 \text{ (factor)} = 136.240 \times 1,000 = \$136,240$

Getting Prequalified by a Lender

Calculations using housing affordability ratios to show:

- how much money the lender will loan you
- what price home you can afford
- how much down payment you need
- how much your monthly payments will be

This is not a guarantee

**Getting Pre-approved
by a Lender**

- Apply for a loan before you find a house
- Guarantees that the lender will loan you a fixed amount if you accept the loan by a certain date
- Has a fee

**Who Makes Mortgage
Loans?**

- Financial institutions
- Government agencies
- Nonprofit organizations
- Sellers
- Financing facilitators

Financial Institutions

- Banks
- Mortgage companies and finance companies
- Credit unions

Nonprofit Organizations

- NeighborWorks® organizations
- HUD-approved counseling agencies

Government Agencies

- State or local housing finance agencies
- USDA Rural Development, Rural Housing Services

Sellers

- Contract for deed
- Wraparound mortgage

Financing Facilitators

- Secondary market investors
- Mortgage brokers

Tips for Selecting a Broker

- Check reputation
- Find an NAMB member
- Find out whom the broker represents
- Ask about the broker's relationships with lenders

Different Loan Categories

- Conforming conventional mortgage loans
- Subprime loans
- Government-insured loans
- Below-market rate loans and other special programs for first-time buyers

Loan Price Cost Comparison

Rate	Monthly Principal and Interest Payment	Total Interest Paid
6.20%	\$612	\$120,488
12.30%	\$1,052	\$278,643

Predatory Lending

- High-pressure sales tactics and steering
- High interest rates and fees
- Balloon payments and negative amortization
- "Packing" and padding costs and fees

Predatory Lending

- Flipping
- Locking borrowers in
- Deceptive practice and fraud

Government-Insured Loans

- FHA loans
- VA loans
- Rural Housing Services loans

Special Loan Programs

- Fannie Mae and Freddie Mac affordable lending products
- Local bank programs
- State and local housing finance agency bond programs
- Nonprofit programs

Different Types of Loans

- Fixed-rate mortgages
- Adjustable-rate mortgages
- Balloon-payment mortgages
- Graduated payment mortgages
- Bi-weekly mortgages
- Incentive rate reduction mortgages

Key Mortgage Terminology

- Loan-to-value
- Down payment
- Loan term
- Interest rate
- Annual percentage rate

Key Mortgage Terminology

- Points
- Mortgage insurance
- Escrow account
- Loan fees

Loan Fees

- Loan application fee
- Credit report fee
- Appraisal fee
- Loan origination fee

Loan Fees

- Processing fee
- Underwriting fee
- Document preparation fee
- Broker fee

Key Mortgage Terminology

- Prepayment
- Rate lock-in
- Amortization

Shopping for a Loan

- Look in newspapers
- Check with current financial institution
- Get referrals from friends and family
- Shop by phone

Shopping for a Loan

- Shop online
- Look for additional community resources
- Ask your housing counselor

Comparing Loans and Programs

- Mortgage loan amount
- Type of loan
- Down payment
- Term of mortgage

Comparing Loans and Programs

- Monthly interest rate and APR
- Monthly payment amounts
- Other costs and fees
- Prepayment penalties

Sources for Baseline Comparisons

- bankrate.com
- freddiemac.com
- mbaa.org
- myfico.com

Applying for the Loan

- Discuss details of loan terms
- Complete and sign written application form
- Provide copies of required documents
- Sign permission letters for verifications

Applying for the Loan

- Sign credit report authorization and pay fee
- Discuss issues lenders should know about
- Pay application fee

Loan Application Documents

- Application (1003)
- Good Faith Estimate
- Truth in Lending

Processing

- Order and review credit report
- Mail verifications of employment and deposit
- Calculate ratios
- Order property appraisal

Legal Reasons for Denial

- High debt
- Insufficient funds
- Low appraisal
- Poor credit rating

Standard Loan Conditions

- Mortgage insurance
- Hazard and possibly flood insurance
- Clear title report and lender's policy of title insurance
- Clean termite inspection and certification
- Survey
- Other inspections common in area

Other Conditions

- Property condition contingencies
- Documentation contingencies
- Other requirements
 - sale of another property you own
 - pay off debt
 - resolve legal problems

Closing Costs

- Loan fees
- Interim interest
- Insurance premiums
- Escrow account deposits

Your Rights as a Loan Customer

- Equal Credit Opportunity Act
- Fair Housing Act

How Laws Protect You

- If you're a woman applying for a loan, you have the right to qualify on your own credit and income
- If you're divorced, a lender must include proven alimony and child support you receive
- If you work part-time and get some public assistance, the lender must include all income

Anti-Discrimination Enforcing Agencies

- HUD
- Federal Reserve
- OCC
- FDIC
- OTS
- NCUA
- FTC

Summary

- What a mortgage is
- Different types of loans available
- How to find the right lender
- How to compare loans
- The behind-the-scenes process that lenders use to make loans
