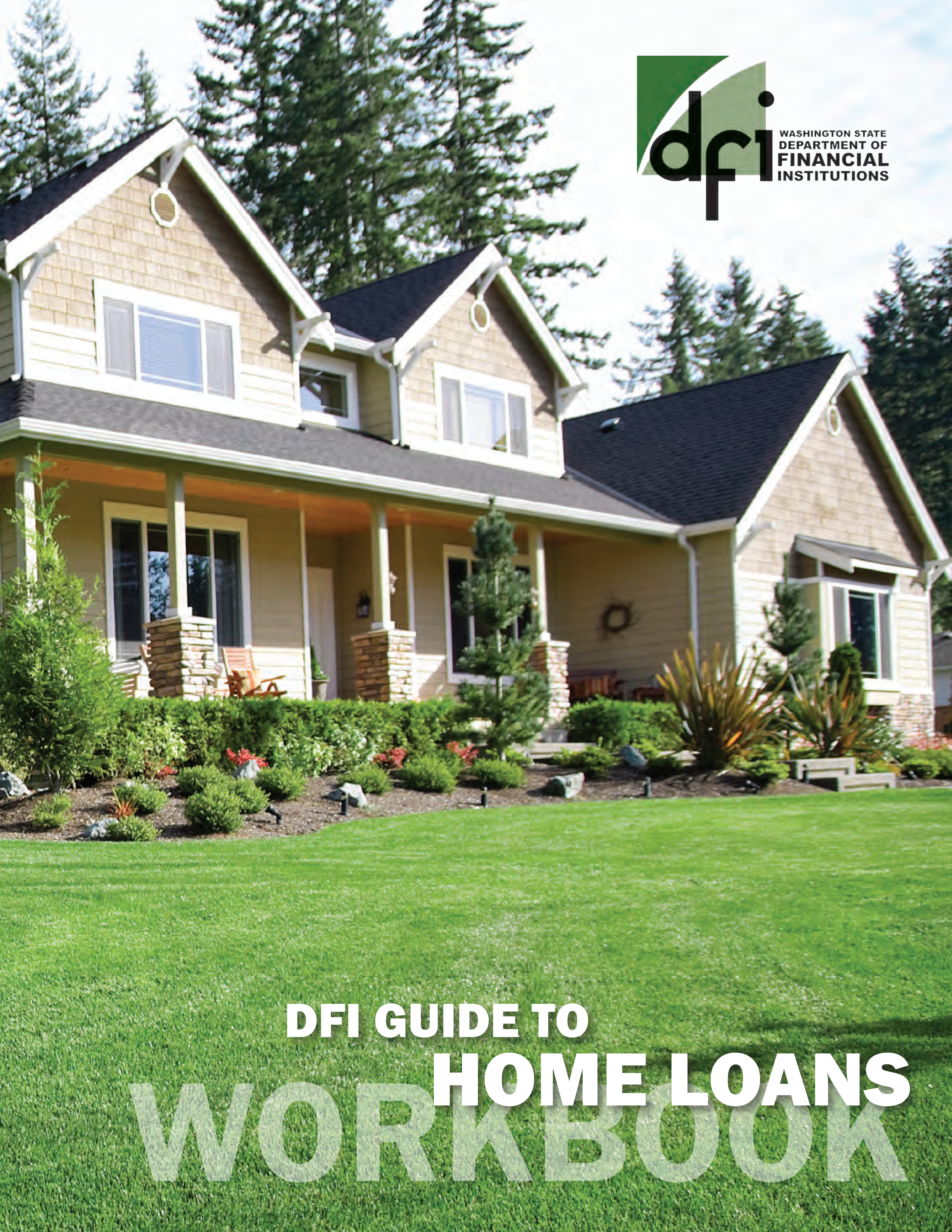

WASHINGTON STATE DEPARTMENT OF FINANCIAL INSTITUTIONS

DFI GUIDE TO HOME LOANS WORKBOOK

YOUR GUIDE TO HOME OWNERSHIP

Welcome to the Department of Financial Institutions (DFI) guide to home loans. Whether you're buying your first home, considering a second mortgage, refinancing, or considering a reverse mortgage the loan process can be confusing and complicated. As you embark on one of the biggest financial decisions you'll make in your lifetime, use this Guide to understand and to help navigate this process.

Washington State is a leader when it comes to passing laws and rules that protect consumers and ensure sound business practices in the mortgage industry. This booklet was updated in August 2013. Visit http://www.dfi.wa.gov/consumers/education/home.htm to verify you have the most recent information regarding the mortgage industry.

Educating yourself can help you avoid common pitfalls and assist you in determining what type of home loan is best for you.

ABOUT DFI

The Department of Financial Institutions licenses and regulates a variety of Washington State Financial Service providers such as banks, credit unions, mortgage brokers, consumer loan companies, money transmitters, payday lenders and securities broker-dealers and investment advisors. DFI also works to protect consumers from financial fraud.

SECTION 1

BUILDING A STRONG FOUNDATION

Imagine building your house on sand. When the first rainstorm blows through, your new house will most likely be washed out to sea. Without placing your house on a solid foundation you can not weather a disaster. Building a foundation of knowledge about the mortgage process is equally important. Here are five steps to help you begin your journey:

Beginning Your Journey

1. Before you buy a home, attend a free homeownership education course offered by a HUD-approved housing counseling organization or agency.
2. Gather all your financial documents, check your credit history and fix any blemishes on your credit before you apply for a loan.
3. Determine how much home you can afford.
4. Keep accurate notes, make a file and keep all loan documents and correspondence in that file.
5. Shop for a lender and compare costs. Be suspicious if anyone tries to steer you to just one lender. Contact the Washington State Department of Financial Institutions to ensure that you're working with a licensed professional.

Construction Crew

Whether you're buying a home for the first time or refinancing a loan for the third time, it's important to know who the main players are and what roles they play in the transaction.

Here are Some Initial Introductions:

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

Selling Agent: the real estate agent representing the buyer rather than listing the property. The listing and selling agent may be the same person or company.

Listing Agent: a real estate agent who represents the seller and works to sell a property.

Mortgage Broker: any person who, for compensation or gain, assists a person in obtaining or applying to obtain a residential mortgage loan.

Loan Originator: a licensed individual working for a mortgage broker or mortgage banker who takes a residential mortgage loan application or offers or negotiates terms of a mortgage loan, for direct or indirect compensation or gain.

Lender (a Bank, Credit Union, or Mortgage Bank): any person or entity loaning funds which are to be repaid.

Loan Officer: an individual working for a bank or credit union who takes a residential mortgage loan application or offers or negotiates terms of a mortgage loan, for compensation or gain.

Title Company/Title Insurance Company: a company that issues an insurance policy that guarantees an owner has title to real property and can legally transfer it to someone else. A title policy may protect the mortgage lender, the home buyer, or both.

Appraiser: a licensed individual who uses his or her experience and knowledge to determine the value of a home and prepare the appraisal estimate.

Inspector: a licensed individual who inspects and documents the physical condition of the property as described and verified in an inspection certificate.

Escrow Agent/Agency: the person or organization having a fiduciary responsibility to both the buyer and seller to see that the terms of the purchase/sale (or loan) are carried out. Often referred to as "closing" the loan, independent escrow agents, title companies, attorneys and even the lender may serve in this role.

Understanding Your Credit

Credit provides a way to acquire merchandise or money with the understanding that you will repay the loan. Your history for paying your bills on time is collected by credit bureaus or credit-reporting agencies. These businesses gather, maintain, and sell information about consumers' credit histories. They collect information about your payment habits from banks, credit unions, finance companies, or retailers.

Why is Your Credit Important?

Generally lenders look at several things: your income, your down payment or equity, your credit history, how much money you've saved, and the property you plan to purchase or refinance. When studying your credit history, almost all lenders look at your credit score and your debt-to-income ratio. Lenders use credit scores, known as FICO scores or VantageScore, as an important factor in the decision whether or not to offer credit - and at what interest rate. The scores can range from 300 to 900+ points.

Credit Problems?

If you have a lower credit score, don't assume that your choices are limited to high-cost loans. If your credit report contains negative information that is accurate but stemming from unique circumstances such as illness or temporary loss of income, be sure to explain your situation to the lender or broker. Take the time to shop around and negotiate the best deal for you.

If you're currently having credit problems, you should work with a HUD-approved credit counseling organization or agency. Many offer credit counseling free of charge or for a nominal fee. Understand you may not be in a position to buy a house until your credit issues are resolved.

The Following Conditions Will Play a Factor in Your Mortgage Lender's Decision to Provide You With a Loan:

Bankruptcy: In most cases, lenders prefer that you wait at least two years after a bankruptcy is closed before taking on another large debt such as a home loan. Bankruptcies can remain on your credit report for up to 10 years. It may be helpful for you to explain the circumstances of the bankruptcy to the lender.

Foreclosure: Having a foreclosure on your records doesn't mean that you can never buy another house. The mortgage lender will, however, want to know the reasons for your foreclosure. Most lenders will expect you to wait three years after a foreclosure before you apply for a new mortgage.

Debts: Having too much debt may lower the chances for you to buy a home or refinance a mortgage. Making late payments or skipping payments will show as derogatory or negative items on your credit report. Taking steps to improve your credit record is one of the most important things you can do.

Credit Reports

A consumer credit report is a document that contains a record of your credit payment history. The report contains four types of information: identifying information, credit information, public record information, and inquiries.

Identifying Information Includes:

- Your name
- Your current and previous addresses
- Your Social Security number
- Your year of birth
- Your current and previous employers
- If you're married, your spouse's name
- Credit information includes credit accounts or loans you have with:
  - Banks
  - Retailers
  - Credit card issuers
  - Other lenders

The information contained on your credit report remains for seven years from the date it's first reported, and then cycles off automatically.

TIP: The credit bureaus will give you one free copy of your credit report annually.

To order a copy of your credit report, contact www.annualcreditreport.com
or

- Equifax www.equifax.com OR Call 1.800.685.1111
- Experian www.experian.com OR 1.888 EXPERIAN (1.888.397.3742)
- TransUnion www.tuc.com OR Call 1.800.916.8800

TIP: If you've been denied credit because of information on your credit report, the lender is required to provide you with the credit bureau's name, address, and telephone number – and you're entitled to a free copy of your report from that credit bureau. The credit reporting industry is regulated by the federal Fair Credit Reporting Act, which is administered by the Federal Trade Commission (FTC).

How Much Home Can You Afford?

Determining how much you can afford is an important first step in shopping. How much will your monthly payments be? Take into consideration future changes in your household income. Are you anticipating a promotion at work that would increase your salary? Will you be adjusting from a double income family to a single income in the coming years? If the interest rate is adjustable - can you afford the larger payment when the rates increase?

Your debt-to-income ratio is the amount of debt payments per month divided by the amount of your income per month. This ratio helps lenders decide how large a monthly payment you can afford.

In addition to the lender knowing what you can afford, you must be comfortable with the size of your monthly payment. One way to do this is to utilize a mortgage calculator. This can be found on-line, and is an easy-to-use tool to help you determine how much you can afford.

Generally, your monthly housing expenses, including principal, interest, property taxes, and homeowners insurance should not exceed 28 percent of your gross monthly income. Your total long term monthly obligations (such as housing expenses, plus car payments and insurance, student loans, child care, etc.) should not exceed 36 percent of your gross monthly income.

Understanding the Types of Mortgages

When searching for a mortgage, it's important to choose the best loan program that fits your personal wants and needs. The right type of mortgage for you depends on many different factors, such as:

- Your current financial picture.
- How you expect your finances to change.
- How long you intend to keep your house.
- Your ability to adjust to a changing mortgage payment.

The best way to find the "right" answer is to discuss your current finances, your plans and financial prospects, and your preferences with a real estate or mortgage professional.

Common Types of Mortgages You Should Know About:

Fixed-Rated Mortgage: A mortgage on which the interest rate stays the same for the term of the loan.

Adjustable Rate Mortgage (ARM): A mortgage in which the interest rate may periodically adjust based on a pre-selected index and a margin is an ARM. The ARM is also known as a variable rate mortgage. These types of loans may have lower monthly payments initially, but can result in negative amortization or higher monthly payments after a rate adjustment. Negative Amortization (NegAm) occurs when the loan payments during a period do not cover the interest accrued that over time, resulting in a higher principle balance than the amount of the original loan.

Balloon (payment) Mortgage: Usually a short term fixed-rate loan that involves smaller payments for a certain period of time, and one large payment at the end of the term of the loan.

Blanket Mortgage: One mortgage securing several pieces of real estate.

Bridge Loan: A mortgage securing a piece of property upon which a house will be built. The loan will be paid off by securing financing for the completed home.

Conventional loan: A mortgage not insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA).

FHA Loan: A loan insured by the Federal Housing Administration, open to all qualified home purchasers, which requires a lower down payment – typically 3 percent – than a conventional loan. This program allows buyers who might not otherwise qualify for a home loan to obtain one because the risk is removed from the lender by FHA insurance. While there are limits on the amount of an FHA loan, they are typically generous enough to handle moderately priced homes almost anywhere in the country.

Interest Only Mortgage: A type of ARM mortgage in which the borrower pays only interest on the principal of the loan for a set period of time, followed by a larger payment period that includes interest and principal payment, or a balloon payment.

Reverse Mortgage: A type of home loan that lets a homeowner convert a portion of the equity in their home to cash. According to the Federal Trade Commission, there are three types of reverse mortgages:

- single-purpose reverse mortgages, offered by some state and local government agencies and nonprofit organizations.
- federally-insured reverse mortgages, known as Home Equity Conversion Mortgages (HECMs) and backed by the U. S. Department of Housing and Urban Development (HUD).
- proprietary reverse mortgages, private loans that are backed by the lenders that develop them.

Unlike a traditional mortgage loan, no repayment is required until the borrower no longer occupies the home as their principal residence. Borrowers must, in government-backed reverse mortgage products, be over the age of 62, and must attend a counseling class and receive a certificate to verify they understand the loan terms.

Subprime Lender/Loans: A lender that provides credit to borrowers who do not meet prime underwriting guidelines and often charges a finance rate that is higher than the "prime" or normal rate offered to borrowers with good credit. Typically, it's a lender that approves loans for individuals who may have poor credit history or no credit history, or who have other characteristics that justify a higher rate. Because you're approved for a subprime loan doesn't mean that you cannot qualify for a prime rate loan from another lender. Be sure to explore your options. If you are a first-time home buyer and the loan you are considering offers a payment schedule that causes the principal balance to increase, you may be required to obtain counseling before the loan can close.

VA Loan: Loans made to veterans that are guaranteed by the Department of Veterans Affairs.

Understanding The Costs of Getting A Mortgage

Down payments, rates, points, and fees can make a loan that looks good at first glance change into something else once all the facts are known. Knowing the amount of the monthly payment and the interest rate is not enough. Be sure to get information about potential loans from several lenders or mortgage brokers and find out all of the costs involved with each. When comparing loans, make sure you're reviewing the same information in each loan such as loan amount, loan term, type of loan, monthly payment, penalties and features, annual percentage rate (APR), cost of financing, and down payment.

TIP: Ask about the loan's APR. The APR takes into account not only the interest rate but also points, fees, and certain other charges that you may be required to pay, and is expressed as a yearly percentage rate. This will specifically tell you the cost of what you're borrowing and will allow you to compare the costs of one loan to another.

TIP: Document everything in writing. A daily journal of all conversations can be a powerful tool in resolving conflicts later.

TIP: Never take the loan originator's verbal promise on any detail or feature of the loan. Federal law requires they make commitments in writing and professionals involved should never hesitate to provide this. If your loan originator is unwilling to put promises in writing shop somewhere else. You should not rely on verbal promises.

Be Sure to Obtain and Compare the Following Information from Each Lender and Mortgage Broker:

Shop around for the best rates and fees. It is in your best interest to get at least two or three estimates from either a mortgage broker or a mortgage lender.

Be sure to check to see if your mortgage loan originator is properly licensed to do business with you. All mortgage loan originators in the U.S. need to be either licensed or registered through the Nationwide Mortgage Licensing System. There is a lot you can find out about your loan originator if you go to the Consumer Access Website at www.NMLSconsumeraccess.org. Most importantly you can verify that the person you are doing business with is properly licensed or registered.

Rates

- Ask each lender for a list of its current mortgage interest rates and whether the rates being quoted are the lowest for that day or week.
- Ask whether the rate is fixed or adjustable. Keep in mind that when interest rates for adjustable rate loans go up, generally so does the monthly payment.
- If the rate quoted is for an adjustable-rate loan, ask how your rate and loan payment will vary, including whether your loan payment will be reduced when rates go down.
- Ask which index and margin will be used to determine the adjusted interest rate.
- Find out how frequently your rate can adjust (monthly, six months, or annually) and how much it can change at each adjustment (yearly caps, lifetime caps).

Points

Points are any fees that you pay that are based on a percentage of the loan amount.

Discount points are fees you pay to the lender to reduce the interest rate on the loan. Ask to see exactly how much your rate will be dropped based on the amount of discount points you pay. For example, paying 0.50 percent of the loan amount in discount points may adjust the loan rate downward by 0.25 percent. Each program and lender will use a different formula and the amounts of points will change daily as market rates change.

Note the trade off between points and rates and compare your short-term needs against your long-term needs. Here is an example based on a $100,000, 30 year fixed rate mortgage at a 6.5 percent interest rate:

	WITH NO DISCOUNT POINTS	WITH DISCOUNT POINTS
$ Amount of Points	$0	$250
Interest Rate	6.5%	6.25%
Monthly Payment	$632	$616

In the above example, it would cost you $250 to save $16 a month in your payment. Only you can determine if this is a beneficial trade off for you. Ask yourself whether you can afford the extra cash up front right now and then note the following:

1. The $250 repays itself in approximately 16 months (dividing $250 by $16 equals 15.63 months). Every month you keep the loan after this point you will be "making" an extra $16 per month. Over the next 344 months this equates to $5,504.

2. Over the life of the loan, this $250 investment also saves you approximately $5,886 in interest.
   - Check online or in some local newspaper business sections for information about current rates and points.
   - Ask for points to be quoted to you as a dollar amount – rather than just as the number of points or percentage – so that you will actually know how much you will have to pay.

> ***TIP:*** CAUTION: You should not directly pay a mortgage broker for discount points because they don't set the rate; the lender does.

Fees

A home loan often involves many fees, such as loan origination fees, underwriting fees, broker fees, transaction, settlement, and third party costs. Every lender or broker must give you an estimate of these fees when you apply for a mortgage loan. Many of these fees are negotiable. Some fees are paid when you apply for a loan (such as credit report and appraisal fees), and others are paid at closing. In some cases, you can include the fees in your loan, but doing so will increase your loan amount and total costs. "No cost" loans are sometimes available, but they usually involve higher interest rates.

- Ask what each fee covers and who will be receiving the fee. Several items may be lumped into one fee.
- Ask for an explanation of any fee you don't understand. Some common fees associated with a home loan closing are listed on the Mortgage Shopping Worksheet (at the back of this workbook).
- Third party costs should be charged to you at the actual cost of service. Ask to see invoices if you feel you're paying too much.

Down Payments and Private Mortgage Insurance

Some lenders require 20 percent of the home's purchase price or value as a down payment or equity in the loan. The down payment sets the Loan to Value or LTV. A 20 percent down payment equates to an 80 percent LTV. Your lender will tell you their LTV requirements for each type of loan.

Most lenders offer loans that require less than 20 percent down — sometimes as little as 0 percent on conventional loans. If a 20 percent down payment is not made, lenders usually require the borrower to purchase private mortgage insurance (PMI) to protect the lender in case the borrower fails to pay. When government-assisted programs such as FHA (Federal Housing Administration), VA (Veterans Administration), or Rural Development Services are available, the down payment requirements may be substantially smaller.

Once your LTV reaches a certain threshold you can request that the lender discontinue the PMI.

- Ask about the lender's requirements for LTV, including what you need to do to verify that funds for your down payment are available.
- Ask your lender about special programs they may offer.

If PMI is Required for Your Loan:

- Ask what the total cost of the insurance will be.
- Ask how much your monthly payment will be when including the PMI premium.
- Ask how long you will be required to carry PMI and how it can be removed.

Taxes and Insurance

Many lenders will require your monthly loan payment to include an additional amount to cover annual real estate taxes and homeowner's insurance. The amount is deposited into an account commonly called a reserve or escrow account. You may also have to pay a cushion amount into the escrow account.

Be sure to ask if the lender requires taxes and insurance to be escrowed. Typically, lenders will require monthly real estate taxes and homeowner insurance premiums to be escrowed if the LTV is greater than 80 percent.

When comparing monthly payments from various lenders, be sure to ask if the lender included monthly taxes and insurance costs in the total payment. If it's included, ask for the costs to be broken down in the following manner:

- Principal and interest
- Real estate taxes
- Homeowner's insurance
- Private mortgage insurance

SECTION 2

CREATING A SOLID STRUCTURE

We've talked about how to build a strong foundation. In this section, we will cover the necessary resources that will make your journey more pleasant and free of obstacles.

When buying a home or refinancing a loan remember to shop around, compare costs and terms, and negotiate for the best deal.

Shop

The newspaper and the Internet are good places to start shopping for a loan. Look for information on interest rates and points from several lenders or brokers. Since rates and points can change daily, you'll want to check the local business section of the newspaper and various financial Web sites often when shopping for a home loan.

TIP: The promotional advertising may not list the fees associated with the loan, so be sure to ask the lenders about fees.

TIP: Beware of some advertisements that may be formatted to look like a news article, rather than an advertisement.

The Mortgage Shopping Worksheet

This worksheet, at right on page 9, is also available by visiting DFI's Web site. Please take it with you when you speak to each lender or broker and be sure to write down all the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you're shopping around.

Loan Pre-Qualification vs. Loan Approval

Loan pre-qualification is a best guess at your housing and loan affordability. Pre-qualification is typically based upon a verbal conversation between potential borrowers and a lender and doesn't include formal underwriting or supporting documentation. A loan pre-qualification is not a commitment to lend.

Loan approval comes after a formal underwriting of a borrower's loan request. Loan approval is achieved with a complete mortgage loan application and typically includes these basic documents:

- Most recent pay stubs (last 2-4 months) and identification of all employment sources.
- Tax Returns: Current year and past year including all schedules and attachments such as W-2's, 1099's and 1098's.
- Verification of all assets including banking, investment and retirement statements.
- Names, addresses, account numbers and amounts owed to all creditors.
- Proof of down payment including cash or gifts.
- Letter(s) of explanation on credit issues; on any gaps in employment history; and bankruptcy.
- Contact information for all residences within the past two years to include names and phone numbers of landlords.

TIP: It's important not to make any changes to your financial condition during the loan process, including any major asset purchases, any new debts or changes in your employment. This will affect your approval rating.

Compare

Using the APR (annual percentage rate):

The APR, which takes into account the interest rate, points, broker fees, and certain charges that you may be required to pay, and is expressed as a yearly percentage rate, will allow you to compare similar loans (e.g. fixed to fixed, ARM to ARM) from the same or different lenders without analyzing fee and rate information. The APR is an interest rate that shows the true interest rate you will pay over the life of the loan, factoring in certain costs related to the loan. Here is an example:

Assume that you're comparing two, fixed rate 30-year mortgages for $100,000 with different interest rates and different amounts of lender fees:

	LOAN #1	LOAN #2
Interest Rate	6.00%	6.25%
Prepaid Finance Charges*	$3,000	$2,500
APR	6.29%	6.49%

* Prepaid finance charges include a variety of costs or fees paid at closing of the loan such as: lender or broker fees, interim interest, escrow fees and title fees.

In this example, you only need the APR to determine that Loan #1 is the most cost effective loan offered. When comparing loans and lenders, your lender or broker should provide you with the APR on any loan discussed.

Mortgage Shopping Worksheet

	Lender 1		Lender 2	
Name of Lender:				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				
Basic Information on the Loans	mortgage option 1	mortgage option 2	mortgage option 1	mortgage option 2
Type of Mortgage: Fixed Rate, Adjustable Rate, Conventional, FHA, Other?				
Minimum Down Payment Required				
Loan Term (Length of Loan)				
Contract Interest Rate				
Annual Percentage Rate (APR)				
Points (may be called Loan Discount Points)				
Estimated Monthly Payment (Principal, Interest, Taxes, Insurance, PMI)				
Monthly Private Mortgage Insurance (PMI) Premiums				
Estimated Monthly **Escrow** for Taxes and Hazard Insurance				
Fees – Different institutions may have different names for some fees and may charge different fees. We have listed some typical fees you may see on loan documents. These fees may be negotiable.				
Application Fee or Loan Processing Fee				
Appraisal Fee				
Attorney Fees				
Credit Report Fee				
Broker Fees (may be quoted as Points, Origination Fees, or Interest Rate Add-on)				
Document Preparation and Recording Fees				
Lender Fee or Funding Fee				
Origination Fee or Underwriting Fee				
Other Fees				
Other Costs at Closing/Settlement				
Title Search/Title Insurance				
Estimated Prepaid Amounts for Interest, Taxes, Hazard Insurance, and Payments to Escrow				
State and Local Taxes, Stamp Taxes, Transfer Taxes				
Flood Determination				
Prepaid Private Mortgage Insurance (PMI)				
Surveys				
Home Inspections/Pest Inspections				
Total Fees and Other Closing/Settlement Cost Estimates				

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Mortgage Shopping Worksheet – continued	Lender 1		Lender 2	
	mortgage option 1	mortgage option 2	mortgage option 1	mortgage option 2
Other Questions and Considerations about the Loan				
Are any of the fees or costs waivable?				
Prepayment Penalties				
Is there a prepayment penalty?				
If so, how much is it?				
How long does the penalty period last? (3 Years? 5 Years?)				
Are extra principal payments allowed?				
Lock-ins				
Is the lock-in agreement in writing?				
Is there a fee to lock-in?				
When does the lock-in occur? At application, approval, or at another time?				
How long will the Lock-in last?				
If the rate drops before closing, can you lock-in at a lower rate?				
Variable or Adjustable Rate Loans:				
What is the initial rate?				
What is the maximum the rate could be next year?				
What are the rate and payment caps each year and over the life of the loan?				
What is the frequency of rate change and any changes to the monthly payment?				
What is the index that the lender will use?				
What margin will the lender add to the index?				
Credit Life/Disability Insurance				
Does the monthly amount quoted to you include a charge for the Insurance?				
If so, does the lender require this insurance as a condition of the loan?				
How much does the insurance cost?				
How much lower would your monthly payment be without the insurance?				
If the lender does not require the insurance, and you still want to buy it, what rates can you get from other insurance providers?				

MORTGAGE TERMS

Annual Percentage Rate (APR): Cost of the credit, which includes the interest and all other finance charges. If APR is more than .75 to 1 percentage point higher than the interest rate you were quoted, there are significant fees being added to the loan.

Points: Fees paid to the lender for a lower interest rate. One point is equal to 1% of the loan amount. Points should be paid at the time of the loan. These can also be used to buy down the interest rate.

Prepayment Penalty: Fees required to be paid by you if the loan is paid off early. Try to avoid any prepayment penalty unless you are very sure that you will hold the loan for longer than the pre-payment penalty period. In the State of Washington, pre-payment penalties are not allowed on second mortgages.

Balloon Payment: Large payment due at the end of a loan. This happens when a borrower has a low monthly payment covering only interest and a small portion of the principal, leaving almost the whole loan amount due in one payment at the end. If you cannot make this payment, you could lose your home.

Appraisal: A determination of the value of a home by a third party who is hired by the lender to assure the home has enough value to pay off the loan should the borrower default. It is typically paid for by borrower.

Loan Origination Fees: Fees paid to the lender for handling the paperwork in arranging the loan. These are prepaid finance charges paid at the loan closing and are included in your APR calculation. You can pay them out of pocket.

Mortgage Broker Fees: Fees paid to the mortgage broker for handling the paperwork for arranging the loan.

Escrow: The holding of money or documents by a neutral third party prior to closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Interest Rate: is the cost of borrowing money expressed as a percentage rate.

Lock-In: A written agreement guaranteeing a home buyer a specific interest rate on a home loan provided that the loan is closed within a certain period of time, such as 60 or 90 days. Often the agreement also specifies the number of points to be paid at closing.

Private Mortgage Insurance (PMI): Insurance that protects the lender against a loss if a borrower defaults on the loan. It is usually required for loans in which the down payment is less than 20 percent of the sales price or, in a refinancing when the amount financed is greater than 75 percent of the appraised value.

Calculators

Mortgage calculators are available online from a number of resources to help you compare and provide you with different scenarios that best fit your needs.

Questions to Ask Your Broker or Lender:

When Shopping for a Loan, You Should Ask:

- What is your best interest rate today? What is the total of all fees including the lender fees, third-party fees and transaction fees?
- Is this rate fixed or adjustable? (A fixed interest rate stays the same for the life of the loan, while an adjustable rate may change.)
- If the loan carries a rebate or Yield Spread Premium, how much it is, and who will receive it.
- Is there an application deposit? If so, how much is refundable?
- What is the total monthly payment, including taxes, homeowners and mortgage insurance?

When You Apply For Your Loan Ask:

- If I lock in my interest rate today, what is the best rate available? What are the fees?
- How long is the lock guaranteed, and what happens if interest rates drop before closing?
- What is the annual percentage rate (APR)?
- Is there a balloon payment due on the loan?
- Are there any pre-payment penalties? What are they and how many years are they in effect?
- Does the interest rate increase if my payments are late?
- What is the total monthly payment, including taxes, homeowners and mortgage insurance?
- Did your lender give you a Good Faith Estimate (GFE) and a copy of the federal booklet on settlement costs? Federal law requires that you get a copy of this document within 3 days of your loan application.

If the Loan is An Adjustable Rate Mortgage (ARM):

- What is the initial rate? How long will that rate stay in effect?
- What is the initial monthly payment? How long will that payment stay in effect?
- How often can the rate change?
- What are the rate and payment caps each year, as well as over the life of the loan?
- What is the maximum interest rate and payment?
- Can I convert my adjustable rate loan to a fixed rate without refinancing?
- Is there a prepayment penalty? If so, how long does it apply?

A Few Things to Remember

1. When you apply for a mortgage loan, every piece of information that you submit must be accurate and complete. Lying on a mortgage application is fraud and may result in criminal penalties. Don't let anyone persuade you to make a false statement on your loan application, such as overstating your income or the value of the home, the source of your down payment, failing to disclose the nature and amount of your debts, or even how long you've been employed.

2. Federal law requires the lender to provide loan documents to you one day before closing. Review them carefully or ask for help from someone you trust or who is skilled in real estate law.

3. Never sign a blank document or a document containing blanks. If someone else inserts information after you've signed, you may still be bound to the terms of the contract. Write "N/A" (not applicable) or cross through any blanks.

4. Read everything carefully and ask questions. Don't sign anything that you don't understand. Never let anyone pressure you into signing before you've read everything completely.

5. Don't let anyone convince you to borrow more money than you know you can afford to repay. If you get behind on your payments, you risk a potential negative impact on your credit score, and losing your house and all of the money you've put into the property.

6. If you use the services of a Mortgage Broker, the broker has a fiduciary relationship with you. This means that, by law, the broker must act in your best interest and in the utmost good faith toward you, and must disclose any and all business relationships to you including, but not limited to, relationships with the lender who is underwriting your loan. Also, a broker may not accept, provide, or charge any undisclosed compensation to another party involved in the loan transaction.

SECTION 3

WINDOW SHOPPING – BECOMING A SAVVY BORROWER

Every year misinformed consumers become victims of predatory lending or loan fraud. Don't let this happen to you! In this section we will warn you about the common financial pitfalls, how to avoid them and provide you with some alternatives.

Avoiding Financial Pitfalls

When you buy a house, you enter into a long-term financial obligation. You fill out papers and sign legal documents based on those papers. It's important that you understand your responsibilities so that you won't be a victim or a participant in fraud.

When you apply for a mortgage loan, every piece of information you submit must be accurate and complete. Anything less is considered loan fraud.

Unfortunately, there are people who may try to convince you to lie about your qualifications so they can illegally make money at your expense. These people will appear to be your friends, saying they're trying to help you. They may downplay or deny the importance of complying with the law and suggest that it's all just "red tape" that everyone ignores. Don't allow yourself to be fooled.

BE SMART

- Before you sign anything, read and make sure you understand it.
- Refuse to sign any blank documents.
- Accurately report your income, your employment, your assets, and your debts.
- Don't buy property or borrow money for someone else.
- Disclosure of loan terms is not just a formality. It's the law and you have the right to know.

BE HONEST

- Don't change your income tax returns for any reason.
- Tell the whole truth about money gifts.
- Don't 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.
- Don't provide false supporting documentation.

DON'T BE DISCOURAGED

If your loan is denied, the lender will tell you why. Maybe you need to look for a less expensive house, or save more money. Check to see if there is more affordable housing or community programs you might be eligible for to help you through your home buying process.

Predatory Lending

Your best defense against illegal or unethical practices is to be informed.

Predatory loans are usually based on dishonesty. Predatory lenders offer easy access to money, but often use high-pressure sales tactics, inflated interest rates, outrageous fees, unaffordable repayment terms, and harassing collection tactics. Predatory lenders target those who have limited access to mainstream sources of credit. The elderly, military personnel and homeowners in low-income neighborhoods are often victims of predatory lending. But anyone can be a victim of a predator.

How to Avoid a Predatory Loan:

Finding the best loan is no different than making any other purchase. Be a smart shopper! Talk with a number of different lenders. Compare their offers. Ask questions and don't let anyone pressure you into making a deal that you don't feel comfortable with. If you don't agree with the terms of the offer you always have the right to walk away. Ask questions until you understand the loan terms – even if you feel embarrassed for not knowing the answer.

TIP: In a refinance loan or second mortgage you have the right to cancel the loan. This is known as the Right of Rescission. The lender must allow you three days after the closing of your loan to change your mind. Use that three days wisely – if the loan is not for you, cancel it.

Common Predatory Lending Practices:

- ***Equity Stripping:*** The lender makes a loan based upon the equity in your home, whether or not you can make the payments. If you cannot make payments, you could lose your home through foreclosure.
- ***Bait-and-switch schemes:*** The lender may promise one type of loan, interest rate, or costs, but switch you to something different at closing. Sometimes a higher (and unaffordable) interest rate doesn't kick

in until months after you've begun to pay on your loan. Scrutinize your documents closely and make sure the loan you sign is the loan you agreed to.

- ***Loan Flipping:*** A lender refinances your loan more than once with a new long-term, high cost loan. Each time the lender "flips" the existing loan, you must pay points and assorted fees.
- ***Packing:*** You receive a loan that contains charges for services you did not request or need. "Packing" most often involves making you believe that credit insurance or some other costly product must be purchased and financed into the loan in order to qualify. Sometimes the costs of these services may simply be hidden altogether.
- ***Hidden Balloon Payments:*** You believe that you've applied for a low rate loan requiring low monthly payments only to learn at closing that it's a short-term loan that you will have to refinance within a few years.
- ***Hiding or Lying About Pre-Payment Penalties:*** You are led to believe that there will be no penalty if you decide to pay your loan off early.
- ***Home Improvement Scams:*** A contractor talks you into costly or unnecessary repairs, steers you to a high-cost mortgage lender to finance the job, and arranges for the loan proceeds to be sent directly to the contractor. In some cases, the contractor performs shoddy or incomplete work, and you are stuck paying off a long-term loan where the house is at risk.
- ***Monthly Payment Scams:*** Don't be tricked by deceptive payment comparisons. Be particularly aware when comparing the new monthly payment to your existing monthly payment. Does the new payment contain amounts for taxes and insurance? Will the lower payment adjust upward after a short time?
- ***Piggy Back Second Loans:*** Be very aware of additional loans offered or "snuck" into your loan transaction at the time of closing. If you did not ask for a second mortgage, home equity line of credit or credit card secured by your home, one shouldn't be included in your closing papers.

As with any loan opportunity you're considering, contact the Washington State Department of Financial Institutions (DFI) to ensure you're working with a licensed professional.

SECTION 4

KNOW YOUR RIGHTS

Before signing any document or paying any money, you should carefully examine your requirements, resources available and the need for professional help. In this section we will provide you with a listing of current laws regulating the mortgage industry. It's always recommended that you contact an attorney for any legal advice.

It's The Law: Know Your Rights!

If A Loan:

- Just doesn't seem fair,
- Seems inordinately expensive, or
- Contains unpleasant surprises that you only find out at or after closing,

Contact the Washington State Department of Financial Institutions.

Primary Laws Regulating the Mortgage Industry

Federal Laws:

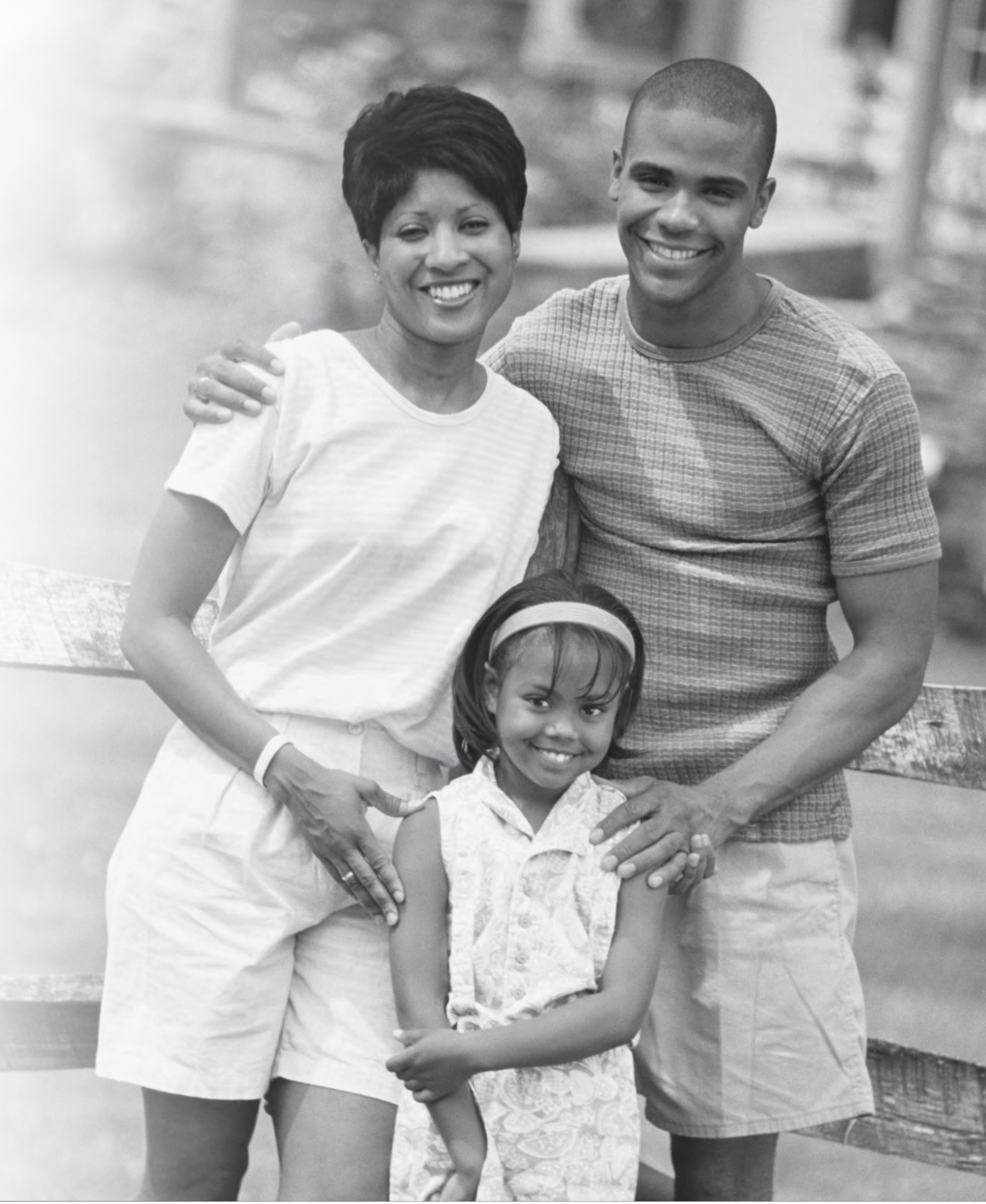
- ***Equal Credit Opportunity Act*** (ECOA) Prohibits discrimination in lending. ECOA prohibits any creditor from discriminating against an applicant with respect to any aspect of a credit transaction based on sex, race, color, religion, national origin, disability or parental status.
- ***Fair Credit Reporting Act*** (FCRA) Stipulates the requirements of users of credit reports and disclosure to consumers.
- F***air Housing Act*** Provides protection against housing-related discriminatory practices based on sex, race, color, religion, national origin, disability or parental status.
- ***Home Ownership and Equity Protection Act*** (HOEPA) Requires additional disclosures for certain types of high cost loans.
- ***Real Estate Settlement Procedures Act*** (RESPA) Prohibits abusive practices such as kickbacks and referral fees, and requires advance disclosure of settlement service costs through the use of a Good Faith Estimate (GFE), which is a good faith estimate of service costs associated with the mortgage loan.
- ***Settlement Statement ("HUD-1")*** Shows every cost the borrower will pay in conjunction with receiving the loan.
- ***Truth-in-Lending Act (TILA)*** Requires disclosure of the cost of credit to the consumer and the terms of repayment.
- ***Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act)*** Establishes a National Mortgage Licensing System and requires all residential mortgage loan originators to be licensed.

Washington State Laws:

- ***Mortgage Brokers Practices Act*** (RCW 19.146) Designed to promote honest and fair dealings and to preserve public confidence in the lending industry by preventing fraudulent practices by mortgage brokers and loan originators.
- ***The Consumer Loan Act*** (RCW 31.04) Authorizes loans with higher interest rates to ensure credit availability to borrowers with higher than average credit risks that might otherwise be unable to obtain loans; also regulates non-bank lenders and residential mortgage loan servicers.
- ***The Consumer Protection Act*** (CPA) Prohibits unfair and deceptive acts or practices in trade or commerce.
- ***Escrow Agent Registration Act*** (EARA) Regulates the closing process of your loan.
- ***Residential Mortgage Loan Disclosure*** (RCW 9.144.020) Requires that borrowers are provided with a one page summary of all material terms of the loan if not provided with the Good Faith Estimate required under RESPA.

The Regulatory Agencies:

- Consumer Financial Protection Bureau
- Department of Housing and Urban Development
- Federal Deposit Insurance Corporation
- Federal Housing Finance Board
- Federal Reserve Board
- Federal Trade Commission
- National Credit Union Administration
- Office of Federal Housing Enterprise Oversight
- Office of the Comptroller of the Currency
- Washington State Attorney General
- Washington State Department of Financial Institutions
- Washington State Department of Licensing - Real Estate
- Washington State Housing Finance Commission
- Washington State Office of Insurance Commissioner



SECTION 5

FINAL WALKTHROUGH

Understanding disclosures during the home loan process is critical. In this section, the most important aspects of the four main disclosures that you will be receiving during this process are reviewed.

Take the time to understand what you're committing to before signing the loan papers. Be sure to ask your loan officer to explain anything confusing or unclear. Don't hesitate to ask questions about amy part of the loan process.

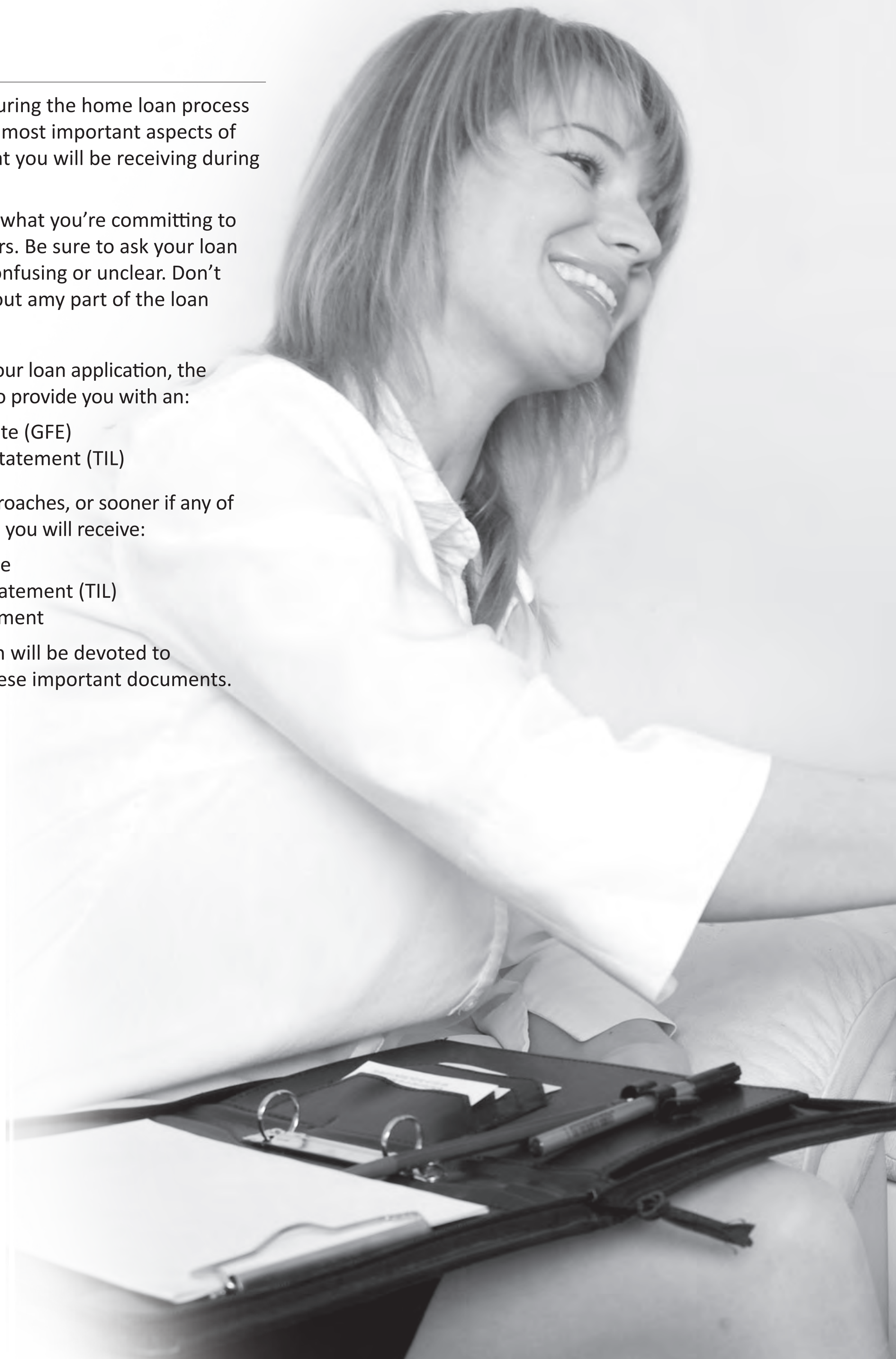
Within three days of taking your loan application, the lender or broker is required to provide you with an:

- Initial Good Faith Estimate (GFE)
- Initial Truth in Lending Statement (TIL)

Then, as the closing date approaches, or sooner if any of the terms of the loan change, you will receive:

- Final Good Faith Estimate
- Final Truth in Lending Statement (TIL)
- HUD-1 Settlement Statement

The remainder of this section will be devoted to illustrating and explaining these important documents.



GOOD FAITH ESTIMATE (GFE)

The Good Faith Estimate (GFE), on the next three pages, shows the interest rate, term, loan amount, and all settlement costs on a particular loan.

If you're using a GFE to compare lenders and brokers, the most significant fees are are those charged by third parties such as (but not limited to) appraisal, credit report, inspection, assumption, tax service and flood certification. These fees should be passed on to the borrower without any markup. A lender has complete control over fees such as origination and discount points, processing, underwriting and administrative fees. If this fee is higher then you were first quoted, find out why and negotiate a better fee if possible.

Interest, taxes and premiums for mortgage, flood and hazard insurance will vary depending on your closing date and are not negotiable. If you close in the beginning of the month, you will be prepay more interest than if you were to close at the end of the month. These items must be paid up front or deposited into an Escrow account.

Your Escrow fees may be negotiable if you plan early with the lender to know who was selected as your settlement agent. You can also choose the settlement agent yourself. Once you know the identity of the settlement agent, you can contact the settlement agent and negotiate your closing fees. In any case, it is still a good idea to ask for lower fees.

And finally, there are your government fees such as the city and county tax stamps, recording fees and pest inspections.

TIP: Sometimes the fees listed on the Good Faith Estimate can change before closing.
Some reasons include:

- Your mortgage broker may have to submit your loan application to a different lender, either to get a better rate or because the underwriter at the first lender didn't approve your loan. Different lenders have different fees.
- If your appraisal is sent to appraisal review by the lender, some lenders charge a fee for that.
- You decide to use a different loan program or a different loan amount.
- You close earlier or later in the month than estimated.
- You decide to use a different home owner's insurance company, policy, or deductible amount.

Have each mortgage professional go over the Good Faith Estimates with you. Compare the items line by line. If you notice the cost of any item on a GFE significantly higher or lower than that of the same item on other GFE's, ask the loan originator to explain the difference. Some dishonest loan originators might "low ball" their settlement costs to gain your business.

State and Federal law requires lenders and brokers to provide a written good faith estimate within three days after taking a loan application from a borrower.

OMB Approval No. 2502-0265

Good Faith Estimate (GFE)

Name of Originator	Borrower
Originator Address	Property Address
Originator Phone Number	
Originator Email	Date of GFE

Purpose

This GFE gives you an estimate of your settlement charges and loan terms if you are approved for this loan. For more information, see HUD's *Special Information Booklet* on settlement charges, your *Truth-in-Lending Disclosures*, and other consumer information at www.hud.gov/respa. If you decide you would like to proceed with this loan, contact us.

Shopping for your loan

Only you can shop for the best loan for you. Compare this GFE with other loan offers, so you can find the best loan. Use the shopping chart on page 3 to compare all the offers you receive.

Important dates

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

Summary of your loan

Your initial loan amount is	$
Your loan term is	years
Your initial interest rate is	%
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	$ per month
Can your interest rate rise?	☐ No ☐ Yes, it can rise to a maximum of %. The first change will be in .
Even if you make payments on time, can your loan balance rise?	☐ No ☐ Yes, it can rise to a maximum of $
Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	☐ No ☐ Yes, the first increase can be in and the monthly amount owed can rise to $. The maximum it can ever rise to is $.
Does your loan have a prepayment penalty?	☐ No ☐ Yes, your maximum prepayment penalty is $.
Does your loan have a balloon payment?	☐ No ☐ Yes, you have a balloon payment of $ due in years.

Escrow account information

Some lenders require an escrow account to hold funds for paying property taxes or other property-related charges in addition to your monthly amount owed of $☐.
Do we require you to have an escrow account for your loan?

☐ No, you do not have an escrow account. You must pay these charges directly when due.
☐ Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.

Summary of your settlement charges

A	Your Adjusted Origination Charges *(See page 2.)*	$
B	Your Charges for All Other Settlement Services *(See page 2.)*	$
A + B	Total Estimated Settlement Charges	$

Understanding your estimated settlement charges

Some of these charges can change at settlement. See the top of page 3 for more information.

Your Adjusted Origination Charges	
1. **Our origination charge** This charge is for getting this loan for you.	
2. **Your credit or charge (points) for the specific interest rate chosen** ☐ The credit or charge for the interest rate of ____ % is included in "Our origination charge." (See item 1 above.) ☐ You receive a credit of $ ____ for this interest rate of ____ %. This credit **reduces** your settlement charges. ☐ You pay a charge of $ ____ for this interest rate of ____ %. This charge (points) **increases** your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.	
A Your Adjusted Origination Charges	$

Your Charges for All Other Settlement Services	
3. **Required services that we select** These charges are for services we require to complete your settlement. We will choose the providers of these services. *Service* — *Charge*	
4. **Title services and lender's title insurance** This charge includes the services of a title or settlement agent, for example, and title insurance to protect the lender, if required.	
5. **Owner's title insurance** You may purchase an owner's title insurance policy to protect your interest in the property.	
6. **Required services that you can shop for** These charges are for other services that are required to complete your settlement. We can identify providers of these services or you can shop for them yourself. Our estimates for providing these services are below. *Service* — *Charge*	
7. **Government recording charges** These charges are for state and local fees to record your loan and title documents.	
8. **Transfer taxes** These charges are for state and local fees on mortgages and home sales.	
9. **Initial deposit for your escrow account** This charge is held in an escrow account to pay future recurring charges on your property and includes ☐ all property taxes, ☐ all insurance, and ☐ other ____.	
10. **Daily interest charges** This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. This amount is $ ____ per day for ____ days (if your settlement is ____).	
11. **Homeowner's insurance** This charge is for the insurance you must buy for the property to protect from a loss, such as fire. *Policy* — *Charge*	
B Your Charges for All Other Settlement Services	$
A + B Total Estimated Settlement Charges	$

Instructions

Understanding which charges can change at settlement

This GFE estimates your settlement charges. At your settlement, you will receive a HUD-1, a form that lists your actual costs. Compare the charges on the HUD-1 with the charges on this GFE. Charges can change if you select your own provider and do not use the companies we identify. (See below for details.)

These charges **cannot increase** at settlement:	The total of these charges **can increase up to 10%** at settlement:	These charges **can change** at settlement:
▪ Our origination charge ▪ Your credit or charge (points) for the specific interest rate chosen *(after you lock in your interest rate)* ▪ Your adjusted origination charges *(after you lock in your interest rate)* ▪ Transfer taxes	▪ Required services that we select ▪ Title services and lender's title insurance *(if we select them or you use companies we identify)* ▪ Owner's title insurance *(if you use companies we identify)* ▪ Required services that you can shop for *(if you use companies we identify)* ▪ Government recording charges	▪ Required services that you can shop for *(if you do not use companies we identify)* ▪ Title services and lender's title insurance *(if you do not use companies we identify)* ▪ Owner's title insurance *(if you do not use companies we identify)* ▪ Initial deposit for your escrow account ▪ Daily interest charges ▪ Homeowner's insurance

Using the tradeoff table

In this GFE, we offered you this loan with a particular interest rate and estimated settlement charges. However:

- If you want to choose this same loan with **lower settlement charges,** then you will have a **higher interest rate.**
- If you want to choose this same loan with a **lower interest rate,** then you will have **higher settlement charges.**

If you would like to choose an available option, you must ask us for a new GFE.

Loan originators have the option to complete this table. Please ask for additional information if the table is not completed.

	The loan in this GFE	The same loan with lower settlement charges	The same loan with a lower interest rate
Your initial loan amount	$	$	$
Your initial interest rate[1]	%	%	%
Your initial monthly amount owed	$	$	$
Change in the monthly amount owed from this GFE	No change	You will pay $ **more** every month	You will pay $ **less** every month
Change in the amount you will pay at settlement with this interest rate	No change	Your settlement charges will be **reduced** by $	Your settlement charges will **increase** by $
How much your total estimated settlement charges will be	$	$	$

[1] *For an adjustable rate loan, the comparisons above are for the initial interest rate before adjustments are made.*

Using the shopping chart

Use this chart to compare GFEs from different loan originators. Fill in the information by using a different column for each GFE you receive. By comparing loan offers, you can shop for the best loan.

	This loan	Loan 2	Loan 3	Loan 4
Loan originator name				
Initial loan amount				
Loan term				
Initial interest rate				
Initial monthly amount owed				
Rate lock period				
Can interest rate rise?				
Can loan balance rise?				
Can monthly amount owed rise?				
Prepayment penalty?				
Balloon payment?				
Total Estimated Settlement Charges				

If your loan is sold in the future

Some lenders may sell your loan after settlement. Any fees lenders receive in the future cannot change the loan you receive or the charges you paid at settlement.

TRUTH-IN-LENDING DISCLOSURE (TIL)

The Truth-In-Lending (TIL) Disclosure Statement is shown at right. The purpose of the TIL is to show you the estimated total costs of borrowing, the expected payment amounts over the life of the loan, whether the loan has a pre-payment penalty, and other significant features of your loan.

Now Let's Look at Some of Key Sections of the Truth In Lending Disclosure Statement:

Annual Percentage Rate (APR)

The APR is the annual cost of the loan in percentage terms that take into account various charges paid by the borrower wherein interest on the loan is only a part of the charges.

The purpose of an APR is to allow you to quickly compare the total costs between competing loans without having to analyze all of the individual costs within each loan.

For Example:

a. A $100,000 30-year fixed rate loan at 7% interest rate with finance costs of $5,000 results in an APR of 7.52%.

b. While the same loan at 8% interest rate with finance costs of $4,000 results in an APR of 8.44%.

By comparing the APRs (7.52% and 8.44%) alone, we can see from our example that the first loan (7.52%) initially seems to have a higher cost however, because the APR is lower it will provide a lower total cost to you in the long run. Comparing APR's on loans is a quick way to determine the cost of each loan.

Finance Charge

This is the sum of the lender charges that are incurred at the time the loan is written. The greater these charges, the higher the APR on the loan.

Amount Financed

This is the amount provided to the borrower or used on the borrower's behalf. This is the principal loan amount less the prepaid finance charges.

Total of Payments

Total of payments to be made toward principal, interest, prepaid finance charges, and mortgage insurance (if applicable), over the life of the loan. The total of payments in the payment schedule will also equal this amount.

Payment Schedule

This is the break down of the number and amounts of payments that will be due under the stated conditions of the loan at the time the loan is made.

Variable Rate Feature

A loan with a variable rate feature, also known as an Adjustable Rate Mortgage (ARM), will have payment adjustments that will occur per the terms agreed on in the note.

Insurance

The insurance section will identify any insurance required (home owner property insurance or flood insurance) or any credit life and credit disability insurance the borrower has indicated a desire to purchase. Credit life and credit disability are an additional cost to the borrower and cannot ever be a requirement for obtaining a loan.

Prepayment

The prepayment section indicates if the borrower has to pay or does not have to pay a penalty for paying off the principal balance of the loan prior to a stated period of time in the note agreement. This section also identifies if the borrower will receive a refund of any of the finance charges if the loan is paid off early.

TRUTH-IN-LENDING DISCLOSURE STATEMENT

(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants: Prepared By:

Property Address:

Application No: Date Prepared:

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate	The dollar amount the credit will cost you	The amount of credit provided to you or on your behalf	The amount you will have paid after making all payments as scheduled
%	$	$	$

☐ REQUIRED DEPOSIT: The annual percentage rate does not take into account your required deposit

PAYMENTS: Your payment schedule will be:

Number of Payments	Amount of Payments **	When Payments Are Due	Number of Payments	Amount of Payments **	When Payments Are Due	Number of Payments	Amount of Payments **	When Payments Are Due
		Monthly Beginning			Monthly Beginning			Monthly Beginning

☐ DEMAND FEATURE: This obligation has a demand feature.

☐ VARIABLE RATE FEATURE: This loan contains a variable rate feature. A variable rate disclosure has been provided earlier.

CREDIT LIFE/CREDIT DISABILITY: Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature	
Credit Life		I want credit life insurance.	Signature:
Credit Disability		I want credit disability insurance.	Signature:
Credit Life and Disability		I want credit life and disability insurance.	Signature:

INSURANCE: The following insurance is required to obtain credit:

☐ Credit life insurance ☐ Credit disability ☐ Property insurance ☐ Flood insurance

You may obtain the insurance from anyone you want that is acceptable to creditor

☐ If you purchase ☐ property ☐ flood insurance from creditor you will pay $ for a one year term.

SECURITY: You are giving a security interest in:

☐ The goods or property being purchased ☐ Real property you already own.

FILING FEES: $

LATE CHARGE: If a payment is more than days late, you will be charged % of the payment

PREPAYMENT: If you pay off early, you

☐ may ☐ will not have to pay a penalty.

☐ may ☐ will not be entitled to a refund of part of the finance charge.

ASSUMPTION: Someone buying your property

☐ may ☐ may, subject to conditions ☐ may not assume the remainder of your loan on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date and prepayment refunds and penalties

☐ * means an estimate ☐ all dates and numerical disclosures except the late payment disclosures are estimates.

* * NOTE: The Payments shown above include reserve deposits for Mortgage Insurance (if applicable), but exclude Property Taxes and Insurance.

THE UNDERSIGNED ACKNOWLEDGES RECEIVING A COMPLETED COPY OF THIS DISCLOSURE.

(Applicant) (Date) (Applicant) (Date)

(Applicant) (Date) (Applicant) (Date)

(Lender) (Date)

WASHINGTON STATE DISCLOSURE SUMMARY

The Washington State Disclosure Summary is shown at right. This document must be used if the GFE is not. This form brings together information from the Good Faith Estimate (GFE) and the Truth in Lending (TIL) documents. Your lender or broker is required to provide you a copy of this disclosure within three days of receiving your loan application if they do not provide you the GFE.

The one-page disclosure summary may be arranged differently from the example to the right, but must contain the same elements in such a way that is easy to read and understand.

First make sure you have the right disclosure. There is one for fixed rate loans and one for adjustable rate loans. Your name and property address should be at the top of the form, and below this should be the terms of your loan. This section must include the length of the loan in years, the loan amount, the interest rate and payment amount.

Monthly reserves are items added to your monthly payment which your lender holds in a separate account, an escrow account, to pay items such as real estate taxes, homeowners insurance, mortgage insurance, and/or homeowner's association dues. The form should reflect which ones are included and which ones are not.

> **Tip:** Not all lenders offer to hold your money in an escrow account. You may have to pay them on your own.

All fees charged by the lender or broker must be on this form. Underwriting, processing and other fees paid to the lender will be disclosed as "Other Fees." Fees paid for services other than to the lender or the broker, such as appraisal or inspection fees, will not be included in this figure.

The disclosure also must tell you if there is prepayment penalty, a lump sum balloon payment due at the end, if your interest rate is locked, whether your rate or fees are higher due to reduced documentation and if your broker is receiving a YSP.

If any of the information on this page has "Significant Changes" then redisclosure is required. "Significant Changes" include a change in:

- Whether the loan contains a prepayment penalty.
- Whether the loan contains a balloon payment.
- Whether the property taxes and insurance are included in the loan payment.
- Whether the loan cost or rate is based on reduced documentation.
- Any increase in the principal loan amount by five percent or more.
- Any increase in the interest rate greater than one-eighth of one percent.
- A change in the loan type (fixed to adjustable or adjustable to fixed.
- Any increase of the disclosed fees by five hundred dollars or more.

If you need help understanding your loan contact DFI at 1-877-746-4334

DISCLOSURE SUMMARY – FIXED RATE LOAN

(This is not a loan commitment. The information below reflects estimates.)

Date ______/______/______ ☐ Initial ☐ Revised

Borrower(s): ____

____

Property Address: ____

Mortgage Term: ____

Loan Amount: $__________________

Interest Rate: ____________%

Principal & Interest Payment: $___________ per month

Monthly Reserves: If these amounts are not included in your monthly payment, you must pay them yourself.

Are	Are not	Added for
☐	☐	Real Estate Taxes
☐	☐	Homeowners / Hazard Insurance
☐	☐	Mortgage Insurance
☐	☐	Homeowners' Association Dues

Originator/Broker/Discount Fees:

Loan Origination Fee:	$___________
Broker Fee:	$___________
Loan Discount Fee (Points: _______%):	$___________
Other Fees:	$___________

Other conditions of your loan:

Yes	No	
☐	☐	Your loan has a penalty if you pay off your mortgage early.
☐	☐	Your loan has a balloon payment.
☐	☐	Your interest rate is locked.
☐	☐	Your interest rate or fees are higher because documentation is reduced.
☐	☐	Your broker will receive a "yield spread premium" of $____________.*

* "Yield spread premium" or "YSP" means a payment from a lender to a broker related to the interest rate of your loan. A yield spread premium can be a useful means to pay some or all of your settlement costs.

IF YOU NEED HELP UNDERSTANDING YOUR LOAN, CONTACT DFI AT 1-877-746-4334

HUD-1 SETTLEMENT STATEMENT

Page 1 of the HUD-1 Settlement Statement is shown at right. This statement is like a receipt for your home purchase or refinance. It shows you what you bought, and who you bought it from. Typically, the closing agent gathers the pertinent information, completes the Settlement Statement and disperses the required funds once the buyer and seller have certified the accuracy of the statement by signing it. The Settlement Statement has the same numbering system as your Good Faith Estimate to keep it uniform and easy to understand.

TIP: It's very important that you verify all the loan costs associated with the transaction in the 801-811 section of the Settlement Statement. If your loan origination fee or other broker/lender fee has increased from the final Good Faith Estimate, find out why it was not disclosed to you until closing day.

The first page of the Settlement sheet is broken down into a summary of the borrower's (buyer) transaction on the left side and a summary of the seller's transaction on the right. The second page is divided into those costs that are "paid from borrower's funds at settlement" and those costs that are "paid from seller's funds at settlement". If buyer, seller, and title agent agree that the statement is true and accurate, all parties sign and date the sheet toward the bottom of page two.

The following key sections of the HUD-1, shown at right, should be thoroughly reviewed by you prior to signing any paperwork at closing:

Borrower's/Seller's Transaction:

Line 101 – Lists the contract price as stated in the Purchase and Sale Agreement.

Line 103 – Total settlement charges to the borrowers; this is obtained from adding up all of the costs on the second page and is shown as a subtotal on Line 1400.

Line 120 – This is the total amount due from the borrower inclusive of the contract price, costs listed on page two of the sheet and adjustments for taxes and other items pad by seller in advance.

Line 220 – States the total amount paid by or for borrowers including deposit monies, principal loans(s) and Seller Assistance.

Line 303 – The figure here is the total amount of funds (in cash or certified check) that borrower needs to bring to settlement in order to close the transaction. If your transaction is a refinance to get cash out, you will find the amount you are to receive here.

A. Settlement Statement (HUD-1)

B. Type of Loan

1. ☐ FHA 2. ☐ RHS 3. ☐ Conv. Unins. 4. ☐ VA 5. ☐ Conv. Ins.	6. File Number:	7. Loan Number:	8. Mortgage Insurance Case Number:

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. Name & Address of Borrower:	E. Name & Address of Seller:	F. Name & Address of Lender:
G. Property Location:	H. Settlement Agent:	I. Settlement Date:
	Place of Settlement:	

J. Summary of Borrower's Transaction

100. Gross Amount Due from Borrower	
101. Contract sales price	
102. Personal property	
103. Settlement charges to borrower (line 1400)	
104.	
105.	
Adjustment for items paid by seller in advance	
106. City/town taxes to	
107. County taxes to	
108. Assessments to	
109.	
110.	
111.	
112.	
120. Gross Amount Due from Borrower	
200. Amount Paid by or in Behalf of Borrower	
201. Deposit or earnest money	
202. Principal amount of new loan(s)	
203. Existing loan(s) taken subject to	
204.	
205.	
206.	
207.	
208.	
209.	
Adjustments for items unpaid by seller	
210. City/town taxes to	
211. County taxes to	
212. Assessments to	
213.	
214.	
215.	
216.	
217.	
218.	
219.	
220. Total Paid by/for Borrower	
300. Cash at Settlement from/to Borrower	
301. Gross amount due from borrower (line 120)	
302. Less amounts paid by/for borrower (line 220)	( )
303. Cash ☐ **From** ☐ **To Borrower**	

K. Summary of Seller's Transaction

400. Gross Amount Due to Seller	
401. Contract sales price	
402. Personal property	
403.	
404.	
405.	
Adjustment for items paid by seller in advance	
406. City/town taxes to	
407. County taxes to	
408. Assessments to	
409.	
410.	
411.	
412.	
420. Gross Amount Due to Seller	
500. Reductions In Amount Due to seller	
501. Excess deposit (see instructions)	
502. Settlement charges to seller (line 1400)	
503. Existing loan(s) taken subject to	
504. Payoff of first mortgage loan	
505. Payoff of second mortgage loan	
506.	
507.	
508.	
509.	
Adjustments for items unpaid by seller	
510. City/town taxes to	
511. County taxes to	
512. Assessments to	
513.	
514.	
515.	
516.	
517.	
518.	
519.	
520. Total Reduction Amount Due Seller	
600. Cash at Settlement to/from Seller	
601. Gross amount due to seller (line 420)	
602. Less reductions in amounts due seller (line 520)	( )
603. Cash ☐ **To** ☐ **From Seller**	

The Public Reporting Burden for this collection of information is estimated at 35 minutes per response for collecting, reviewing, and reporting the data. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number. No confidentiality is assured; this disclosure is mandatory. This is designed to provide the parties to a RESPA covered transaction with information during the settlement process.

PAGE 2 OF THE HUD-1 SETTLEMENT STATEMENT IS SHOWN AT RIGHT.

Lines 701 – 703 – States the total commission to selling agent or broker.

Lines 801-811 – All of the costs associated with the loan such as origination fees, appraisal fee, credit report fee, various lender and broker fees, administration fees, and flood certification fee are listed.

Lines 901 – 905 – Any amounts that are required by the lender to be paid in advance, such as daily interest, are set forth here. For example, if Buyer settles on May 20, 2014, the lender will likely require that the Buyer pay in advance daily interest on the loan until June 1, 2014.

Lines 1001-1009 – All reserves that the lender requires to be set aside in an escrow account such as hazard insurance, county taxes, and school taxes are set forth.

Lines 1101 – 1113 – Includes all charges associated with the Buyer's title insurance such as the insurance premium and overnight wire fee.

Lines 1201 – 1203 – Details the recording fees charged by the county to record the deed and mortgage and sets forth the proportionate share of the real estate transfer taxes for Buyer and Seller.

Adjustments to Costs Shared By Buyer and Seller

At settlement it is usually necessary to make an adjustment between buyer and seller for property taxes and other expenses. The adjustments between buyer and seller are shown on the left and right side of page 1 on the Settlement Statement.

Similar adjustments are made for homeowner's association dues, special assessments, and utilities. Be sure you work out these cost sharing arrangements or "pro-rations" with the seller and settlement agent before the actual day of settlement. Typically these fees are agreed upon in writing through the negotiation of your Purchase & Sales Agreement.

L. Settlement Charges		
700. Total Real Estate Broker Fees	Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement
Division of commission (line 700) as follows :		
701. $ to		
702. $ to		
703. Commission paid at settlement		
704.		
800. Items Payable in Connection with Loan		
801. Our origination charge $ (from GFE #1)		
802. Your credit or charge (points) for the specific interest rate chosen $ (from GFE #2)		
803. Your adjusted origination charges (from GFE #A)		
804. Appraisal fee to (from GFE #3)		
805. Credit report to (from GFE #3)		
806. Tax service to (from GFE #3)		
807. Flood certification to (from GFE #3)		
808.		
809.		
810.		
811.		
900. Items Required by Lender to be Paid in Advance		
901. Daily interest charges from to @ $ /day (from GFE #10)		
902. Mortgage insurance premium for months to (from GFE #3)		
903. Homeowner's insurance for years to (from GFE #11)		
904.		
1000. Reserves Deposited with Lender		
1001. Initial deposit for your escrow account (from GFE #9)		
1002. Homeowner's insurance months @ $ per month $		
1003. Mortgage insurance months @ $ per month $		
1004. Property Taxes months @ $ per month $		
1005. months @ $ per month $		
1006. months @ $ per month $		
1007. Aggregate Adjustment -$		
1100. Title Charges		
1101. Title services and lender's title insurance (from GFE #4)		
1102. Settlement or closing fee $		
1103. Owner's title insurance (from GFE #5)		
1104. Lender's title insurance $		
1105. Lender's title policy limit $		
1106. Owner's title policy limit $		
1107. Agent's portion of the total title insurance premium to $		
1108. Underwriter's portion of the total title insurance premium to $		
1109.		
1110.		
1111.		
1200. Government Recording and Transfer Charges		
1201. Government recording charges (from GFE #7)		
1202. Deed $ Mortgage $ Release $		
1203. Transfer taxes (from GFE #8)		
1204. City/County tax/stamps Deed $ Mortgage $		
1205. State tax/stamps Deed $ Mortgage $		
1206.		
1300. Additional Settlement Charges		
1301. Required services that you can shop for (from GFE #6)		
1302. $		
1303. $		
1304.		
1305.		
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		

Comparison of Good Faith Estimate (GFE) and HUD-1 Charrges		Good Faith Estimate	HUD-1
Charges That Cannot Increase	**HUD-1 Line Number**		
Our origination charge	# 801		
Your credit or charge (points) for the specific interest rate chosen	# 802		
Your adjusted origination charges	# 803		
Transfer taxes	# 1203		

Charges That In Total Cannot Increase More Than 10%		Good Faith Estimate	HUD-1
Government recording charges	# 1201		
	#		
	#		
	#		
	#		
	#		
	#		
	#		
	Total		
	Increase between GFE and HUD-1 Charges	$ or	%

Charges That Can Change		Good Faith Estimate	HUD-1
Initial deposit for your escrow account	# 1001		
Daily interest charges $ /day	# 901		
Homeowner's insurance	# 903		
	#		
	#		
	#		

Loan Terms

Your initial loan amount is	$
Your loan term is	years
Your initial interest rate is	%
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	$ includes ☐ Principal ☐ Interest ☐ Mortgage Insurance
Can your interest rate rise?	☐ No ☐ Yes, it can rise to a maximum of %. The first change will be on and can change again every after . Every change date, your interest rate can increase or decrease by %. Over the life of the loan, your interest rate is guaranteed to never be **lower** than % or **higher** than %.
Even if you make payments on time, can your loan balance rise?	☐ No ☐ Yes, it can rise to a maximum of $
Even if you make payments on time, can your monthly amount owed for principal, interest, and mortgage insurance rise?	☐ No ☐ Yes, the first increase can be on and the monthly amount owed can rise to $. The maximum it can ever rise to is $
Does your loan have a prepayment penalty?	☐ No ☐ Yes, your maximum prepayment penalty is $
Does your loan have a balloon payment?	☐ No ☐ Yes, you have a balloon payment of $ due in years on .
Total monthly amount owed including escrow account payments	☐ You do not have a monthly escrow payment for items, such as property taxes and homeowner's insurance. You must pay these items directly yourself. ☐ You have an additional monthly escrow payment of $ that results in a total initial monthly amount owed of $. This includes principal, interest, any mortagage insurance and any items checked below: ☐ Property taxes ☐ Homeowner's insurance ☐ Flood insurance ☐ ☐ ☐

Note: If you have any questions about the Settlement Charges and Loan Terms listed on this form, please contact your lender.

FINAL CONSIDERATIONS

The decisions you make at closing may be with you for the life of the loan. Even at this late date you can negotiate terms or seek advice from your realtor, an attorney or your local housing authority in making a final decision. The bottom line is the final decision lies with you.

Here are several things to consider before your signing day.

Before Signing Day:

- Contact the lender or Escrow Agent and request copies of your completed documents – such as the settlement statement (HUD-1), Deed of Trust, Note, and all Addendums and Riders – at least one day before your appointment to sign your loan.
- Visit a local housing counselor, an attorney or a trusted family member or friend to review all documents. Make sure that you understand all the terms of the loan.
- Check your Promissory Note: Is the interest rate correct?
- Is the payment what you expected and will it include taxes and insurance?
- What is the term of the loan? 30 years? 20 years? 15 years? or even 40 years or longer?
- Is there a prepayment penalty? Is there a balloon payment? If you are unsure of the impact of these features, contact a non-profit housing agency or a lawyer.
- If your loan is an Adjustable Rate Mortgage, you should receive an ARM Disclosure or Rider. Review this document. Make sure you understand how often your rate can increase, how much your payment can increase, when the rate will go up, and what the maximum interest rate and the maximum monthly payments will be.
- If a mortgage broker is involved, is the broker charging anything other than a mortgage broker fee? For example, are they also charging a processing fee, an underwriting fee, or some other kind of fee of which you were unaware?

TIP: Be sure to request a copy of your property appraisal from your broker, federal law gives you a right to receive a copy.

All these documents plus others you received at closing make up your personal loan file.

Keep these together with all other items relating to your home in a safe place.

Before you Leave the Closing,
Be Sure You Receive Copies of:

- Your Promissory Note
- The Deed of Trust
- Estimated HUD-1 Settlement Statement
- The Truth in Lending Disclosure Statement
- The Servicing Disclosure and
- Any Insurance Disclosures.

If you’re refinancing or getting an equity line of credit, you have three days to change your mind after you sign the loan documents. If you decide you don’t want the loan within this 3-day “rescission” period, you will provide the lender with written notification. Provide a signed copy of the “Notice to Cancel” to your lender. You can find this document among your closing papers. If you do rescind the loan, the lender must give you back any money you paid out in the transaction, even money you paid to other parties.

Within one-week of signing your loan documents, you should receive a final HUD-1 settlement statement in the mail. If you don’t receive this information, contact your lender or escrow agent immediately. This document is your official accounting of all money paid. Review this final statement closely and make sure nothing has changed.

Closing Costs

Closing costs are all the different charges that you’ll be required to pay at or before the closing. They include charges related to the purchase of your home, and charges related to getting a mortgage. Depending on the specific circumstances of your particular loan, closing costs typically run between three and five percent of the loan amount.

Charges by the Lender May Include:

- Application fees
- Points and origination fees and
- Charges for appraisals and credit reports

Charges Collected by the Title Company or Settlement Agent Include:

- Title insurance fees
- Real estate tax on the mortgage
- Homeowner’s insurance reserves
- Charges for filing documents with the county clerk
- And a settlement fee for handling all the paperwork to close your loan. In a purchase, some of these costs may be shared with the seller.

There may be other charges for services provided by either your lender or the closing company. Your lender or mortgage broker can give you more specific information on these costs. Remember, when you budget for your purchase, you should include the prepaid and financed closing costs, in addition to the purchase price, so that you can be sure that you can afford the house.

TIP: To decrease the amount of money you’ll need to pay at closing, ask to schedule the closing at the end of the month.

For example: If you close on January 31st, your first payment will still be March 1st, but you’ll only need to pay the interest for that one day at the time of closing. Your first payment will only be a month and a day away, instead of almost two months away, but you’ll need less money at the closing.

SECTION 6

WELCOME HOME

Congratulations on the purchase of your new home! Now it's time to welcome your family and prepare for the house warming party.

Protecting Your Home Investment

1. Limit your use of consumer credit cards. Avoid high cost purchases. Live within your means.
2. If you fall into debt, talk to a mortgage counselor before you apply for a loan. Avoid adding credit card debt to your mortgage.
3. Think twice about including a car payment in a mortgage refinance. Do you want to make payments on your car over 30 years?
4. Considering life insurance? Talk to a financial planner. Some Mortgage Life Insurance products pay your lender but your loved ones don't receive a penny
5. Thinking about refinancing? Don't just look at your loan payments – look at the life of your loan. For example, refinancing with another 30-year mortgage may lower your monthly payment but it also means another 30 years of payments. Perhaps a 15-year loan would best meet your needs.
6. Now that you've become a homeowner, you will be bombarded with credit offers. Choose your credit accounts wisely. Always read the fine print. There is no free money – just clever advertising.
7. Homeowner's insurance can cover more than home replacement. Consult an insurance specialist about coverage for your home's contents, replacement costs, and liability insurance.

Preventing Foreclosure

If you fall behind in your monthly house payments, the lender may try to take the house back. This is generally called foreclosure. If a house is foreclosed, you may lose not only your house, but also all of the money you've invested. A foreclosure or a deficiency judgment could seriously affect your ability to qualify for credit in the future. Avoid this if at all possible.

Ways That You Can PREVENT Foreclosure:

- Early intervention is the key! If you're having trouble making your monthly mortgage payments, contact your lender immediately. Don't wait!
- Don't ignore letters from your lender.
- Clearly explain your situation. Write down who you spoke to, the date, and what was said.
- Be prepared to provide your lender with your current financial information, such as your monthly income and expenses.
- You can stop the foreclosure by making up any delinquent payments plus any costs related to the foreclosure.
- Remember to use registered or certified mail in all your correspondence on legal matters.

What Are Your Alternatives?

- ***Special Forbearance.*** Your lender may be able to arrange a repayment plan that would be based upon your current financial situation and may even provide for a temporary reduction or suspension of your payments. You may qualify for this if you've recently experienced an involuntary reduction in income or an increase in living expenses.
- ***Mortgage Modification.*** You may be able to refinance the debt and extend the term of your mortgage loan. This will help you catch up by possibly reducing the monthly payments to a more affordable level. You may qualify if you've recovered from a financial problem but your net income is less than it was before the default.
- ***Partial Claim.*** Your lender may be able to work with you to obtain an interest-free FHA loan from HUD to bring your mortgage current, if you qualify.
- ***Pre-Foreclosure Sale.*** This will allow you to sell your property and pay off your mortgage loan to avoid foreclosure and damage to your credit rating. If you're unable to afford the house long-term, you may sell the house yourself before the foreclosure sale and save some of your equity.
- ***Short Sale.*** A sale in which the lender agrees to accept a sale price less than the outstanding balance of the loan.

- ***Deed-in-lieu of Foreclosure.*** As a last resort, you may be able to voluntarily "give back" your property to the lender. This won't save your house, but may help your chances of getting another mortgage loan in the future.

TIP: If you're a senior citizen or are disabled and are facing a foreclosure action because of unpaid property taxes or special assessments, you may be eligible to postpone payment of your property taxes or special assessments under two programs in Washington. Contact your local County Assessor's Office or an attorney for more information.

TIP: Lenders don't have to accept all proposals and are not obligated to do so. So don't wait till the last minute to contact your lender.

TIP: If the lender refuses to take partial payments, you should put this money aside to help negotiate with the lender later.

TIP: The foreclosure process may continue despite the possibility of a workout agreement. Therefore, you should not wait to hear back from the lender. You should contact the lender early and try and come up with a solution as soon as possible.

How Do You Know If You Qualify For Any Of These Alternatives?

Contact your local housing counseling agency for help in determining which, if any, of these options may meet your needs. You should also discuss the situation with your lender.

Should You Be Aware Of Anything Else?

Beware of scams! Solutions that sound too simple or too good to be true usually are. If you're selling your home without professional guidance, beware of buyers who try to rush you through the process. Unfortunately, there are people who may try to take advantage of your financial difficulty. Be especially alert to the following:

- ***Equity skimming.*** This type of scam involves a "buyer" approaching you and offering to pay off your mortgage or give you a sum of money when the property is sold. The "buyer" may suggest that you move out quickly and deed the property to him or her. The "buyer" then collects rent for a time, doesn't make any mortgage payments, and allows the lender to foreclose. Remember that signing over your deed to someone else doesn't necessarily relieve you of your obligation on your loan.
- ***Phony Counseling Agencies.*** Some groups calling themselves "counseling agencies" may approach you and offer to perform certain services for a fee. These could well be services you could do for yourself, for free, such as negotiating a new payment plan with your lender, or pursuing a pre-foreclosure sale. If you have any doubt about paying for such services, call a HUD-approved housing counseling agency. Do this BEFORE you pay anyone or sign anything.

Precautions You Can Take

Take Precautions to Avoid Being "Taken" By a Scam Artist:

- Don't sign any papers you don't fully understand.
- Make sure you get all the "promises" in writing.
- Signing over the deed to someone else doesn't necessarily relieve you of your loan obligation. If your name is still included on the documents, you're still liable for repaying the loan.
- Check with your lawyer or your lender before entering into any deal involving your home.
- Check to see if there are any complaints against the prospective buyer if you're selling your house. You can contact Washington State's Attorney General's Office or the Real Estate Commission for this type of information.

Points You Should Remember

- If you get behind on your payments, call or write your mortgage lender immediately.
- Stay in your home to make sure you qualify for assistance.
- Arrange an appointment with a housing counselor to explore your options.
- Cooperate with the counselor or lender trying to help you.
- Explore every alternative to losing your home.
- Beware of scams.

SECTION 7

SECURING A LINE OF CREDIT AFTER PURCHASE

Here is a heads up on what can be done after the purchase of your home relative to financing, refinancing, or obtaining an equity line of credit. It's important for you to understand that your home investment can bear you fruits for a future expansion, remodel, a consolidation loan or long awaited vacation. Let's see how it works:

Is A Home Equity Credit Line for You?

If you need to borrow money, home equity lines may be one useful source of credit. Initially, they may provide you with large amounts of cash at relatively low interest rates. And they may provide you with certain tax advantages unavailable with other kinds of loans.

At the same time, home equity lines of credit require you to use your home as collateral for the loan. This may put your home at risk if you're late or cannot make your monthly payments. Those loans may put your home in jeopardy if you can't qualify for refinancing. And, if you sell your home, most plans require you to pay off your credit line at that time. In addition, because home equity loans give you relatively easy access to cash, you might find you borrow money too freely.

- How much money can you borrow on a home equity line of credit (HELOC)? Depending on your creditworthiness and the amount of your outstanding debt, home equity lenders may let you borrow up to 100 percent of the appraised value of your home minus the amount you still owe on your first mortgage. Ask the lender about the length of the home equity loan, whether there is a minimum withdrawal requirement when you open your account, and whether there are minimum or maximum withdrawal requirements after your account is opened. Inquire how you can gain access to your credit line – with checks, credit cards, or both.

Also, find out if your home equity plan sets a fixed time – a draw period – when you can make withdrawals from your account. Once the draw period expires, you may be able to renew your credit line. If you can't, you won't be permitted to borrow additional funds. Also, in some plans, you may have to pay your full outstanding balance. In others, you may be able to repay the balance over a fixed time.

- What safeguards are built into the loan? One of the best protections you have is the Federal Truth in Lending Act discussed earlier, which requires lenders to inform you about the terms and costs of the plan at the time you're given an application. Lenders must disclose the APR and payment terms and must inform you of charges to open or use the account, such as an appraisal, a credit report, or attorneys' fees. Lenders also must tell you about any variable rate feature and give you a brochure describing the general features of home equity plans.

The Truth in Lending Act also protects you from changes in the terms of the account before the plan is opened.

Because your home is at risk when you open a home equity credit account, you have three days after you receive the closing papers to cancel the transaction, for any reason. To cancel, you must inform the lender in writing. Upon timely cancellation, your credit line must be cancelled and all fees you've paid must be returned.

Questions to Ask Before You Sign the Dotted Line:

What is the interest rate on the HELOC?

What is the index and margin that affect the interest rate?

- What are the up front closing costs?
- Is there an annual fee?
- What are the repayment terms during the loan?

Home Improvement Loan

Understanding Your Payment Options

You have several payment options for most home improvement and maintenance and repair projects. For example, you can get your own loan or ask the contractor to arrange financing for larger projects. For smaller projects, you may want to pay by check or credit card. Avoid paying cash. Whatever option you choose, be sure you have a reasonable payment schedule and a fair interest rate. Here are some additional tips:

- Try to limit your down payment. Some state laws limit the amount of money a contractor can request as a down payment.
- Try to make payments during the project contingent upon satisfactory completion of a defined amount of work. This way, if the work is not proceeding according to schedule, the payment is also delayed.

- Lien laws may allow subcontractors or suppliers to file a mechanic's lien against your home to satisfy their unpaid bills. Don't make the final payment or sign an affidavit of final release until you're satisfied with the work and know that the subcontractors and suppliers have been paid.
- Some state or local laws limit the amount by which the final bill can exceed the estimate, unless you've approved the increase.
- If you have a problem with merchandise or services that you charged to a credit card, and you've made a good faith effort to work out the problem with the seller, you have the right to withhold payment for the merchandise or services. Contact your card issuer for details on how this service is administered. You may be able to withhold payment up to the amount of credit outstanding for the purchase, plus any finance or related charges.

The "Home Improvement" Loan Scam

A contractor calls or knocks on your door and offers to install a new roof or remodel your kitchen at a price that sounds reasonable. You tell him you're interested, but can't afford it. He tells you it's no problem — he can arrange financing through a lender he knows. You agree to the project, and the contractor begins work. At some point after the contractor begins, you're asked to sign a lot of papers. The papers may be blank or the lender may rush you to sign before you have had time to read what you have been given to sign. You sign the papers. Later, you realize that the papers you signed are a home equity loan. The interest rate, points and fees seem very high. To make matters worse, the work on your home isn't done right or hasn't been completed, and the contractor, who may have been paid by the lender, has little interest in completing the work to your satisfaction.

You can protect yourself from inappropriate lending practices. Here's how.

Don't:

- Agree to a home equity loan if you don't have enough money to make the monthly payments.
- Sign any document you haven't read or any document that has blank spaces to be filled in after you sign.
- Deed your property to anyone. First consult an attorney, a knowledgeable family member, or someone else that you trust.
- Agree to finance through your contractor without shopping around and comparing loan terms.

Getting a Written Contract

A contract spells out the "who, what, where, when" and cost of your project. The agreement should be clear, concise and complete.

Before You Sign a Contract, Make Sure it Contains:

- The contractor's name, address, phone, and license number.
- The payment schedule for the contractor, subcontractors and suppliers.
- An estimated start and completion date.
- The contractor's obligation to obtain all necessary permits.
- How change orders will be handled. A change order – common on most remodeling jobs – is a written authorization to the contractor to make a change or addition to the work described in the original contract. It could affect the project's cost and schedule. A remodel often requires payment for change orders before work begins.
- A detailed list of all materials including color, model, size, brand name, and product.
- Warranties covering materials and workmanship. The names and addresses of the parties honoring the warranties – contractor, distributor or manufacturer – must be identified. The length of the warranty period and any limitations also should be spelled out.
- What the contractor will and will not do. For example, is site clean up and trash hauling included in the price? Ask for a "broom clause." It makes the contractor responsible for all clean-up work, including spills and stains.
- Oral promises also should be added to the written contract.
- A written statement of your right to cancel the contract within three business days if you signed it in your home or at a location other than the seller's permanent place of business. During the sales transaction, the salesperson (contractor) must give you two copies of a cancellation form (one to keep and one to send back to the company) and a copy of your contract or receipt. The contract or receipt must be dated, show the name and address of the seller, and explain your right to cancel.

Keeping Records

Keep all paperwork related to your project in one place. This includes copies of the contract, change orders and correspondence with your home improvement professionals. Keep a log or journal of all phone calls, conversations and activities. You also might want to take photographs as the job progresses. These records are especially important if you have problems with your project – during or after construction.

Completing the Job: A Checklist

Before you sign off and make the final payment, use this checklist to make sure the job is complete. Check that:

- [ ] All work meets the standards spelled out in the contract.
- [ ] You have written warranties for materials and workmanship.
- [ ] Proof that all subcontractors and suppliers have been paid.
- [ ] The job site has been cleaned up and cleared of excess materials, tools and equipment.
- [ ] You've inspected and approved the completed work.

Reverse Mortgages

If you're age 62 or older and are "house-rich, cash-poor", a reverse mortgage may be an option to help supplement your income. However, because your home is such a valuable asset, you may want to consult with your family, attorney, or financial advisor before applying for a reverse mortgage. Knowing your rights and responsibilities as a borrower may help to minimize your financial risks and avoid any threat of foreclosure or loss on your home.

How Reverse Mortgages Work

A reverse mortgage is a loan where a lender pays you a monthly advance, a line of credit, or a combination of both while you continue to live in your home. The amount you're eligible to borrow generally is based on your age, the equity in your home, and the interest rate the lender is charging. Funds you receive from a reverse mortgage may be used for any purpose.

With a reverse mortgage, you retain title to your home. You are responsible for maintaining your home and paying all real estate taxes. Depending on the plan you select, your reverse mortgage becomes due with interest when you move, sell your home, reach the end of a pre-selected loan period, or die. When you die, the lender doesn't take title to your home, but your heirs must pay off the loan. Usually, selling the home or refinancing the property repays the debt.

Facts to Consider About Reverse Mortgages

- Reverse mortgages are rising-debt loans. The interest is added to the principal loan balance each month, because it's not paid on a current basis. The amount you owe increases over time as the interest compounds. Some reverse mortgages have fixed rate interest; others have adjustable rates that can change over the lifetime of the loan.
- Reverse mortgages use some or all of the equity in your home, leaving fewer assets for you and your heirs.
- The three types of reverse mortgages – FHA insured, lender-insured, and uninsured – vary according to their costs and terms. Check the features of each to select the type that is best suited for your needs. Before considering a reverse mortgage, consult with family members, your attorney, or financial advisor.
- Reverse mortgages typically charge loan origination fees and closing costs. Insured plans charge insurance premiums and some plans have mortgage servicing fees. You may be able to finance these costs if you want to avoid paying them in cash. But, if you finance the costs, they will be added to your loan amount and you will pay interest on them.
- Your legal obligation to repay the loan is limited by the value of your home at the time the loan is repaid. This would include any appreciation in the value after your loan began.

There are various reverse mortgage plans offered. Consult your attorney or financial advisor about the tax consequences of the particular plan you're considering.

Reverse Mortgage Safeguards

The Federal Truth in Lending Act (TILA) is one of the best protections you have with a reverse mortgage. TILA requires lenders to disclose the costs and terms of reverse mortgages. This includes the Annual Percentage Rate (APR) and payment terms. If you choose a credit line as your loan advance, lenders also must tell you of charges related to opening and using your credit account.

You are entitled to counseling from a federally-approved reverse mortgage counselor if you apply for a reverse mortgage, so be sure to take advantage of that!

MORTGAGE TERMS

Annual Percentage Rate (APR): Cost of the credit, which includes the interest and all other finance charges. If APR is more than .75 to 1 percentage point higher than the interest rate you were quoted, there are significant fees being added to the loan.

Points: Fees paid to the lender for a lower interest rate. One point is equal to 1% of the loan amount. Points should be paid at the time of the loan. These can also be used to pay down the interest rate.

Prepayment Penalty: Fees required to be paid by you if the loan is paid off early. Try to avoid any prepayment penalty unless you are very sure that you will hold the loan for longer than the pre-payment penalty period. In the State of Washington, pre-payment penalties are not allowed on second mortgages.

Balloon Payment: Large payment due at the end of a loan. This happens when a borrower has a low monthly payment covering only interest and a small portion of the principal, leaving almost the whole loan amount due in one payment at the end. If you cannot make this payment, you could lose your home.

Appraisal: A determination of the value of a home by a third party who is hired by the lender to assure the home has enough value to pay off the loan should the borrower default. It is typically paid for by borrower.

Loan Origination Fees: Fees paid to the lender for handling the paperwork in arranging the loan. These are prepaid finance charges paid at the loan closing and are included in your APR calculation. You can pay them out of pocket.

Mortgage Broker Fees: Fees paid to the mortgage broker for handling the paperwork for arranging the loan.

Escrow: The holding of money or documents by a neutral third party prior to closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Interest Rate: is the cost of borrowing money expressed as a percentage rate.

Lock-In: A written agreement guaranteeing a home buyer a specific interest rate on a home loan provided that the loan is closed within a certain period of time, such as 60 or 90 days. Often the agreement also specifies the number of points to be paid at closing.

Private Mortgage Insurance (PMI): Insurance that protects the lender against a loss if a borrower defaults on the loan. It is usually required for loans in which the down payment is less than 20 percent of the sales price or, in a refinancing when the amount financed is greater than 75 percent of the appraised value.

LOAN DOCUMENT CHECKLIST

Use this Loan Document Checklist to make sure you have all the right documents to secure your loan.

DOCUMENT NAME	DOCUMENT DESCRIPTION	(CHECK) if buyer has a copy	REQUEST COPY FROM
Promissory Note	Borrowers acknowledgement of loan and promise to repay	☐	Lender
Deed of Trust	Records lien and grant powers to trustee incase of default	☐	Lender
Rider(s)	Adds additional loan terms/ restrictions	☐	Lender
Washington Disclosure Summary	Required on purchase transactions if no GFE is given, contains important loan details.	☐	Lender or Broker
Good Faith Estimate	Preliminary estimate of fees and funds Re-disclosure of estimated fees	☐	Lender or Broker
Second Good Faith Estimate	Required if there are major changes to the initial one	☐	
Truth in Lending Disclosure	Shows repayment schedule and total amount you will have paid in the end	☐	Lender or Broker
Three Day Right of Rescission (equity or refinance loans only) (not applicable in purchase transaction)	Notice of borrower's right to cancel the transaction during the 3 days after loan signing	☐	Lender
Estimated HUD-1	Escrow agent's estimate of costs and funds to be distributed	☐	Escrow Agent
Final HUD-1	Final accounting of costs and funds to be disbursed	☐	Escrow Agent
Credit Report (not required to be provided to borrower but can be requested)	Three-bureau credit decision	☐	Lender or Broker
Lock-in Agreement	Shows whether the rate was locked and if so, what the rate was	☐	Lender or Broker
Servicing Disclosure	Disclosure to the borrower whether the lender intends to sell the loan to another entity that will collect your payments	☐	Lender or broker
Insurance Disclosure (if applicable)	Discloses any insurance products that were sold to the borrower in conjunction with the loan	☐	Lender
Broker Disclosure	Broke's agreement to provide a service and what cost (only applicable when broker was used)	☐	Broker
Affiliated Business Disclosure	Required when a service provider refers the borrower to an entity the provider has beneficial interest in	☐	Party that referred borrower to an affiliate
HOEPA Notice	Additional disclosure required if the APR is more than 10% above the treasury yield, OR total fees are more	☐	Lender

WASHINGTON STATE DEPARTMENT OF FINANCIAL INSTITUTIONS

1-877-RING DFI
www.dfi.wa.gov

RESOURCES

The Following Agencies Served as Resources for this Project:

AARP
www.aarp.org

Fannie Mae
www.fanniemae.com

Federal Citizen Information Center
www.pueblo.gsa.gov

Federal Deposit Insurance Corporation
www.fdic.gov

Federal Reserve Board
www.federalreserve.gov

Federal Trade Commission
www.ftc.gov

Freddie Mac
www.freddiemac.com

Ginnie Mae
www.ginniemae.gov

Seattle/King County Coalition for Responsible Lending
seattle.gov/housing/predatorylending/Default.htm

U.S. Department of Urban and Housing Development (HUD)
www.hud.gov

Washington State Housing Finance Commission
www.wshfc.org

Washington State Office of the Attorney General
www.atg.wa.gov

Disclaimer: This information is intended to provide you with general information about buying and refinancing your home. It touches on the basic steps in the process and suggests guidelines for avoiding pitfalls, but it does not attempt to provide financial or legal advice. If you lack knowledge or experience in negotiating terms, arranging financing, analyzing tax consequences, or handling related details, you should contact an attorney, or request assistance from your local housing authority before buying or refinancing a home. It is designed to be an educational tool. It does not endorse or recommend any person, product, or institution.

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