AMERICAN℠

FAMILY FUNDS

Down Payment Gift Programs

Simply, more qualified buyers

Homebuyer Education & Default Prevention Handbook

American Family Funds, Inc.

For more information:
888-869-0420
www.americanfamilyfunds.com

Congratulations! You're One Giant Step Closer To Your Dreams of Home Ownership!

Homeownership is becoming a reality for more and more Americans. During 2003, the United States homeownership rate reached 68.4%, the highest rate ever. Yet many Americans don't realize that homeownership is possible for them.

Welcome to the American Family Funds Down Payment Gift Program. We are a non-profit organization whose goal is to help families like yours realize the dream of home ownership. Our Gift Program helps families purchase homes with a gift for the down payment and sometimes even the closing costs.

Buying a home is part of the American dream. It is a significant long-term investment that often represents the foundation for our economic and emotional security. It is also the largest single transaction most people make. This guide is designed to help you learn about the home buying process so you can make informed decisions when you purchase your home.

AMERICAN FAMILY FUNDS DOWN PAYMENT GIFT PROGRAM
HOMEBUYER EDUCATION AND DEFAULT PREVENTION HANDBOOK

CHAPTER 1: WHY OWN A HOME?

Why buy a home when you can just rent? Renting gives you the flexibility to live where you want, move where you want, and the landlord is responsible for most of the repairs. Sounds great. Or does it?

There are many factors to consider when you think you're ready to buy a home. It is important to think about the changes that homeownership can make to your current and future financial situation, your style of living, your household needs, and your attitude toward increased responsibility.

Owning a home can have many advantages:

Building Equity

The single most important reason to buy your home can be expressed in one word —"EQUITY".

As long as you are renting, you are building equity for someone else and not yourself. When you purchase a home some of the money you pay every month goes towards building your equity in that home, not the equity of the landlord. What is equity? It is the market value of your home less what you owe on the mortgage. Building equity in your home allows you to plan for the future. It allows you to plan for retirement, a child's education and many more important life decisions. If you have a fixed rate mortgage then your payments remain the same. When you rent, the payments can go up every year.

In the first few years of most mortgages, the majority of your monthly mortgage payment goes toward interest on the loan. Over time, an increasing amount of the monthly payment goes toward reducing mortgage balance, or "principal." As you make payments, you reduce the principal and increase your share, or "equity," in your home's value. If your home increases in value through appreciation, your equity will build even faster. Building equity — or savings — in your home is important. For many people, it lets them plan for retirement and other future goals.

Gain Tax Advantages

Owning a home has another advantage. Interest paid for a mortgage is tax deductible. You are allowed to deduct mortgage interest and property taxes from your federal income tax and from most states' income tax. These deductions can mean significant tax savings, especially in the early years of the mortgage when interest makes up most of the monthly payment.

Investment

A home can be a very good investment. Most homes increase in value, unlike cars and furniture and other personal property. In most neighborhoods, a home will be worth more over time than it was when it was bought.

Social Benefits

Recent studies of the social impact of living in one's own house clearly demonstrate a broad range of advantages accruing to homeowner families. These benefits span include many quality of life payoffs – from higher school grades and lower teen pregnancies to stronger neighborhood collaboration and greater voter participation in local, state and federal elections.

Among the findings:

- Children of homeowners showed a 9% higher probability of being in school than those of renters.
- Teenage pregnancy rates in families owning their homes are from 2-4% lower than for families who rent.
- Children of homeowners have a 25% higher probability of completing high school than renters' children.
- Children of homeowners have a 116% better chance of graduating college than renters' children.
- Children of homeowners had a 59% better chance of being homeowners themselves within 10 years of leaving the parental home.
- Math achievement scores are 9% higher among homeowners' children than renters' children.
- Reading achievement scores are 7% higher among homeowners' children than renters' children.
- Homeowners are 25% more likely to vote in local, state and federal elections than renters.

As the recent study from Harvard University's Joint Center for Housing Studies makes clear, homeownership is the cornerstone for vast improvements in quality of life.

CHAPTER 2: CAN I BUY A HOME?

More than two-thirds of American households own their home today, but many people still believe they could never own a home. Could this be you? Maybe you worry you can't afford to buy a house or that your credit isn't strong enough. Or you can't imagine saving enough for a down payment.

Think again.

In less than three years, American Family Funds Down Payment Gift Program has provided **non-repayable** gifts to be used for the down payment and/or closing costs on homes to nearly *12,000* homebuyers. That's right; nearly *12,000* families now own homes thanks to American Family Funds. You too, can take advantage of this program. However, before you begin, you need to think about whether owning a home is right for you.

Buying a home takes time, energy and money – but it's worth the effort! Start by answering these questions:

1. Do I have a steady, reliable source of income?

2. Have I been employed regularly for the last 2 years?
3. Do I pay my bills on time?
4. Is my total debt (all credit cards, car loans, etc.) manageable? Can I afford those debts and a mortgage?
5. Do I have some money saved for a down payment and/or closing costs? If not, have I researched my options of buying a home with no down payment?
6. Can I afford both the mortgage and other expenses, such as utilities, repair and maintenance costs?
7. Do I have time to take care of a home?
8. Do I have time to devote to buying a home right now? Or are other commitments a priority?

If you can answer "yes" to **all** of these questions, you are probably on your way to owning your own home.

CHAPTER 3: WHAT IS A MORTGAGE?

A mortgage is a loan secured by real estate. In return for the money necessary to purchase a home, a lender gets your promise to pay back the money over a certain period at a certain cost. Your promise to repay backed by the lender's claim to the property. If you stop paying the loan, the lender can take ownership of that property and may sell it to recover the money owed. Typically, the repayment of a mortgage occurs through monthly payments over a period of fifteen to thirty years.

What Does A Mortgage Payment Include?

Usually, your monthly mortgage payment is made up of four parts known as (PITI):

1. Principal

Principal is the amount of money you borrow based on the sale price of the home. In the early stages of your mortgage term, your monthly payment includes only a small portion that repays your original principal. As you continue to make payments through the years, a greater portion of your payment goes to reduce the principal.

2. Interest

Interest is the cost of borrowing money. In the early stages of your mortgage term, your monthly payment is mostly interest. As you continue to make payments through the years, a smaller portion of your payment goes to interest.

3. Taxes

Taxes are paid by homeowners to local governments, and are usually charged as a percentage of the assessed property value. Tax amounts vary depending on where you live. The property taxes owed on the property are usually included in the monthly mortgage payment so the lender can be sure the taxes are paid as required.

4. Insurance

Insurance offers financial protection to the lender and the buyer in the event of a loss and has two main components that can be included as part of your payment. Homeowner's or hazard insurance protects you and the lender against financial losses on your property as a result of fire, wind, natural disasters or other hazards. Most lenders will require you to have a homeowner's insurance policy on your home because it will help protect their investment as well as yours.

Mortgage insurance (MI) is required on certain loans to protect the lender against financial losses if the borrower fails to repay the loan. Usually, whenever the down payment is less than 20% of the home's purchase price, lenders require some type of insurance. Loans insured by FHA/HUD programs require a mortgage insurance premium (MIP), while VA loans require a funding fee. Conventional loans, or those without government backing, can be insured with Private Mortgage Insurance (PMI).

Mortgage Insurance (What makes low down payment loans possible)

Simply put, ***Mortgage Insurance*** and ***Private Mortgage Insurance*** protects the mortgage lender against financial loss if a homeowner stops making mortgage payments. If your down payment on your home is less than 20 percent of the appraised value or sale price, you must obtain mortgage insurance with your lender. This will enable you to obtain a mortgage with a lower down payment because your lender is now protected if you stop paying the loan. ***Mortgage Insurance charges vary depending on the size of the down payment and the loan***, but they typically amount to about one-half of 1 percent of the loan, according to the Mortgage Bankers Association of America. Mortgage insurance premiums are not tax deductible.

When a homeowner fails to make the mortgage payments as promised, a default occurs. If payments are not made and the default eliminated, the home goes into foreclosure. Both the homeowner and the mortgage insurer lose in a foreclosure. The homeowner loses the house, all of the money they have put into it, and their credit rating. The mortgage insurer will then have to pay the lender's claim on the defaulted loan. For this reason, it is crucial that the family buying the home can really afford it, not only at the time it is purchased, but throughout the time period of the loan.

Although the cost of the mortgage insurance is paid by the home buyer, or borrower, the mortgage insurer works directly with the lender. Remember that mortgage insurance is not the same as credit life insurance, also called mortgage life insurance. This type of policy repays an outstanding mortgage balance if the person who took out the insurance policy dies.

Mortgage Insurance and RESPA (Real Estate Settlement Procedures Act)

RESPA has no jurisdiction over the lender's decision to require PMI. Nor does it have any jurisdiction over the lender's decision to cancel PMI. The **PMI Act (http://www.hud.gov/offices/hsg/sfh/res/respapmi.cfm)** provides information regarding cancellation of PMI.

Typically, the portion of your monthly mortgage payment that covers taxes and insurance is held in a special account by your lender known as an Escrow Account.

Escrow Accounts

Mortgage escrow accounts are special accounts set up by the lender in which money is held to pay for property taxes, fire and hazard insurance premiums, mortgage insurance premiums, and other escrow items. Escrow accounts ensure that these items are paid in a timely fashion. They are a guarantee that there is always enough money to pay these bills when they are due so that the homeowner avoids the risk of lapsed insurance coverage or delinquent taxes. The advantages of having escrow accounts for these additional expenses are:

- **Guarantee that bills are paid on time** - Homeowners do not have to worry about coming up with several large, lump sum payments, each with different due dates, throughout the year.
- **Unexpected increases are taken care of**- It is the responsibility of the lender to allow for possible increases in tax or insurance premiums.
- **Lenders typically cover shortages when tax or insurance payments increase**- It is very common for lenders to pay taxes and insurance premiums when they are due even though all the money for these bills has not yet been collected from the homeowner.
- **Mortgages have lower rates and down payments because of escrows**- Escrows protect the interest of investors of home mortgage loans by making them more attractive and secure as investments.
- **Local governments save money**- Escrow accounts also benefit local governments by providing a more efficient, less expensive means of tax collection.
- **Escrow accounts and RESPA-** RESPA does not require that you maintain an escrow account for the purpose of paying property taxes, hazard insurance, etc. Nor does RESPA have any jurisdiction over the decision of the lender or servicer to require or terminate an escrow account. RESPA does, however, provide you with the following protections with regard to the escrow account:
    1. If your lender or mortgage servicer requires you to maintain an escrow account for the purpose of paying property taxes, hazard insurance, etc., RESPA requires that the servicer pay such items by the dates due to avoid a penalty or late charge.
    2. RESPA sets limits on the maximum amount of money the servicer may require you to maintain and pay in the escrow account.

CHAPTER 4: HOW DO I QUALIFY FOR A MORTGAGE?

In general, all lenders use the same four basic standards (capacity, character, capital and collateral) to approve applicants for a mortgage.

Capacity (Income)

Do you have steady and sufficient income to make the monthly payments? This income can come from a primary, second, or part-time job(s), overtime and bonuses, commissions, self-employment, retirement benefits, pensions and annuities, public assistance, child support, alimony or maintenance payments, veteran's benefits, disability payments or rental property income. In most cases, you need to provide documentation regarding your income. Alimony and child support need not be noted unless you want to have them included as the basis for repayment of the debt. Lenders are looking for stable, ongoing sources of income. One-time bonuses or occasional overtime are not seen as favorably as income that has continued over a period of time and can be expected to continue into the future.

Character (Credit History)

Have you paid back money you borrowed in the past? Have you been late in making your payments? Have you filed for bankruptcy? Do you have a record of judgments and collection accounts filed? Some lenders do offer special products for homebuyers with past credit problems. If you have a limited or no credit history, a "nontraditional" credit history will be considered. You may need to show paid receipts and canceled checks for rent and utility payments that document a pattern of paying your monthly obligations on time.

Your past financial history is very important because it indicates your willingness and ability to handle the increased financial responsibility of repaying your home loan.

Capital (Savings)

Have you saved any money that can be used toward the purchase of your home? The savings can be money in a savings account, certificate of deposit, retirement [401(k)] account, or a gift from a relative or friend. A lender wants to see that you have the capital to fulfill your current obligations as well as your new mortgage.

Collateral (Property)

Your lender will require an appraisal on the home you wish to purchase home to determine its market value. Your lender will also look at the type of the property you intend to buy and whether there are additional costs such as homeowner's association dues.

CHAPTER 5: HOW MUCH CAN I AFFORD TO SPEND?

For a general idea of how much you can afford to spend, multiply your annual gross income by 2½. For example, if your gross income is $30,000, you might be able to qualify for a $75,000 home. The actual number may be more or less, depending upon your individual situation, debts and credit history.

Mortgage lenders generally use two ratios to help determine how much you can afford to spend each month on your mortgage payment.

1. *Housing Expense Ratio*

   With the housing expense ratio, your monthly mortgage payment should be less than or equal to about a quarter of your gross monthly income. That means if your paycheck is $2000/month, then your mortgage payment should be no more than $500. The percentage can change depending on the type of mortgage you choose.

2. *Debt-to-Income*

Your buying power can be affected by factors such as your income, debt, and credit history. Your debt, such as credit card bills, car loans, and other expenses such as housing expenses, alimony and child support, should not be more than about 30-40% of your gross income. For example, if your gross monthly income is $2000, then your total monthly debt including your mortgage payment should not exceed $600-$800/month.

CHAPTER 6: HOW MUCH MONEY WILL I NEED?

You'll need money for:

1. Down Payment
2. Closing costs
3. Earnest Money Deposit
4. Other housing-related costs – mortgage payments, maintenance and repair costs

1. Down Payment

Your down payment is a percentage of the value of the house you want to buy. In the past, saving money for a down payment on a home was often the largest obstacle to home ownership. Lenders often required a minimum of a 20% down payment. But today's flexible home loan programs make this issue less of a challenge, and some programs allow you to put very little down (3% or less). You may qualify for programs that don't require down payments at all. Many homebuyers are eligible for the **American Family Funds Down Payment Gift Program**.

Funds for your down payment can come from the following sources:

- Savings account, bonuses, and commissions
- Mutual funds
- Securities
- Proceeds of life insurance
- IRA, 401(k) or Keogh funds
- Government grant programs and subsidized secondary financing
- Gift money from a relative - Some mortgage lenders may require that a certain amount of the down payment come from documented savings that you have accumulated personally. Ask your lender about their gift money requirements.
- Charitable organization gift programs like **American Family Funds.** In order to receive a gift from American Family Funds you must qualify for a FHA Mortgage. FHA is a government program that is the most flexible of all mortgage programs available. To qualify you must have:
    1. Good Credit
    2. Two years employment in the same field (sometimes less)
    3. Limited monthly bills
    4. Purchase a home within the FHA Loan Value Limits **(click here to check the limits for your area)** **https://entp.hud.gov/idapp/html/hicostlook.cfm**

2. Closing Costs

Closing costs include points, prepaid taxes, title insurance, financing costs, items that must be prepaid, and other settlement costs. These costs generally range between 2-7% of the property value. You will receive an estimate of these costs from your lender after you apply for a mortgage. The closing cost fees generally fall into one of three categories:

- **Out-of-pocket expenses-** Out-of-pocket expenses usually cover third-party services that are directly charged to you, such as fees for appraisals, attorneys, credit reports, title (deed recording), or tax services. Which services you must pay for varies depending on the property location and home financing program. If you don't understand what a particular fee covers, or why you are required to pay it, ask your mortgage provider to explain.

- **Pre-paid items-** Prepaid items can vary based on the type of property and the time of the closing, but generally include homeowner's insurance, mortgage insurance (MI), and fees associated with establishing an escrow account.

- **Points**- A Point is a fee that represents 1% of your loan amount. Generally, points can be split into two categories:

    - Origination points: This is an amount collected by the lender for making the loan.

    - Discount points: This is a fee that allows you to purchase a lower interest rate for your mortgage. In other words, in return for paying more discount points up front, you can lower your interest rate and thus your monthly payment.

When you are negotiating the contract to purchase a home, you may be able to get the seller to pay your required closing costs or you may be able to use the American Family Funds Down Payment Assistance Program to acquire the required funds for closing **(Click here for more information**).

3. Earnest Money Deposit

As part of the **ratified sales contract**, you will submit an earnest money deposit to show that you are a serious buyer. This money will be placed in an escrow account and applied to your closing costs. Your mortgage lender will probably want to see a receipt for the earnest money along with your ratified sales contract when you apply for the mortgage. Earnest money is usually not returnable if you don't complete your obligations under the terms of the contract.

4. Other Considerations About Home Ownership

Monthly Housing Costs Can Increase

Monthly mortgage payments can be more than rent. However, interest from your mortgage and real estate taxes can be deducted from federal income taxes (and some state income taxes). You may owe less income tax because of the interest deduction. Talk with a tax consultant to see how homeownership can affect your tax situation.

Maintenance and Repair Costs Do Arise

Homeowners are responsible for things that landlords pay for when renting. These costs include repairing appliances, painting the house and mowing the lawn.

Mobility Can Be Limited

You won't be able to easily move to another home until your current house is sold. You'll also probably have to rely on a strong local real estate market to be able to quickly sell your current home. Selling your home may also have some costs such as hiring a real estate professional, local sales or transfer taxes, and possibly temporary housing.

Property Values Can Go Down

It is possible that your property could depreciate, or lose some of its value. This can happen for a number of reasons including a recession or you're not keeping the house in good condition. When you own a home, you have to take responsibility for routine maintenance costs. When a house depreciates significantly, it can sell for less than what you paid for it. As a result, what you owe on your mortgage might be more than the house is worth. If that happens, you would have to pay the remainder of the loan balance and take a loss on the house if you sell it.

CHAPTER 7: NOW THAT I HAVE DECIDED TO BUY A HOME, WHAT DO I DO?

1. Review your credit

When you look for a mortgage, lenders will review your credit report. Your credit report is a history of how you have managed your finances and repaid debt. The credit report provides information on money you have borrowed and a history of your payments. If you have a history of paying your monthly obligations on time, that's a signal to a lender that you are likely to make your monthly mortgage payments on time as well. So your credit can be a factor in the kind of mortgage program you may qualify for. Your credit history can also affect the amount required for a down payment, the amount of money you can borrow in relation to your income, and the interest rate you are offered. But keep in mind that even if you have no established credit history or less-than-perfect credit, there are still loan programs that can help you buy a home.

Your credit history is pulled together into a credit report by three private companies: ***Equifax, Experian and Trans Union***. These companies sell your credit report to banks and other creditors so they can review mortgage and loan applications.

Most of the information in your credit report is deleted after 7 years (a bankruptcy is deleted after 10 years) and is continuously updated to reflect the latest information.

It's important that you look at your credit reports from each of the three companies to make sure they are correct. Your credit report may vary from one company to the other.

Your credit report includes:

- A list of debts, such as credit cards and car loans; and a history of how you have paid them
- Any bills that have been referred to a collection agency. This can include items like phone and medical bills.
- Public record information, such as tax liens or bankruptcies, even if these happened several years ago.
- The number of inquiries made about your creditworthiness. (An inquiry is made when you request credit.) Many times your report will also show if you were given credit based on the inquiry.
- Understand that you will **not** see your credit rating on your credit report.

To obtain your credit reports, contact:

Equifax
P.O. Box 105873
Atlanta, GA, 30348
1-800-685-1111
www.equifax.com

TransUnion
Consumer Disclosure Center
P.O. Box 1000
Chester, PA 19022
1-800-888-4213
www.transunion.com

Experian
National Consumer Assistance Center
P.O. Box 2104
Allen, TX 75013
1-800-682-7654
www.experian.com

You can receive a copy of your credit report for $8-$20.00.

What If My Credit Reports Contain Errors?

If you believe that any one of your credit reports contains mistakes and you wish to dispute or correct the mistake, contact the company that developed the report.

Under the Fair Credit Reporting Act (FCRA), the company must complete an investigation, usually within 30 days. Within 5 days of completion, the company must provide you written notice of the results, including a copy of your credit report if it has changed based upon the dispute.

The Federal Trade Commission (FTC) enforces the FCRA and publishes brochures about credit.

To contact the FTC, call or write:

Federal Trade Commission
Consumer Response Center
6th & Pennsylvania Avenue, N.W.
Washington, D.C. 20580
Phone: (877) FTC-HELP or (877) 382-4357
www.ftc.gov

Credit Scores

When you apply for a mortgage, the lender may request a credit score as well as a credit report. A credit score is a computer-generated number that indicates your ability and willingness to repay a debt based on your credit record. Your credit score is part of the mortgage information that will decide if your application is approved. Your credit score may also be used to determine the mortgage interest rate.

For example, if you charge up to the limit on your credit cards – even if combined they don't add up to a lot of money – this might hurt your credit score. Or, if you have recently applied for a number of credit cards – even if you haven't begun to use them yet – your credit score might be affected.

However, if you show a pattern of managing your credit wisely, keeping credit card balances low and consistently paying your bills on time, your credit score will be positively affected.

The most commonly used credit score today is known as a FICO® score. Developed by Fair, Isaac & Co. Inc., FICO scores are ranked on a scale of approximately 400 to 900 points. Statistically, consumers with higher credit scores are more likely to repay their debts than consumers with lower credit scores.

If your credit score is low, remember that no credit score lasts forever. A credit score is a snapshot based on current information in your credit report. There are things you can do today to improve your credit score in the future.

Paying one of your bills a few days late one time usually will not impact a credit score immediately or significantly. Credit scores reflect credit patterns over time. However, an adverse action, like a tax lien or bankruptcy filing, can immediately and significantly impact a credit score.

Manage your credit responsibly. A strong credit history will give you a strong credit score.

Good Credit

Building good credit doesn't have to be difficult. Follow these tips and you're on your way:

1. *Pay Your Bills on Time.*

How you've paid your bills in the past can indicate how you'll pay in the future. Credit scores emphasize your most recent payment record so if you've been late, start paying on time!

2. *Pay at Least the Minimum Amount Required.*

If you already have outstanding loans or credit card debts, try to payoff as many as possible. The amount of monthly debt you are responsible for paying reduces your capacity for taking on housing debt (via the back-end ratio, discussed above). Remember- you can always pay more, but you should never pay less.

3. Keep Credit Card Balances Low.

Don't charge your credit cards to the limit. Use credit cards only when you must. Pay with cash whenever possible.

4. Close Accounts you No longer Use.

Even if you are a consistent, on-time bill payer, you can damage your credit rating by just having a lot of credit cards with large credit lines. Contact any creditors for accounts which you no longer use and request that they close the account.

5. Don't Apply for Too Many Loans or New Accounts.
Requesting a lot of credit in a short time span may concern lenders that you won't manage your debt well.

6. Establish Credit if You Have None.

If you've always paid cash or used checks to make purchases and haven't established a credit record, it's a good idea to do so before you buy a home. You can use credit to purchase low-priced items, make prompt payments and pay off the balance.

Some loan program guidelines allow "alternative" credit records. If you have a limited credit history, your paid receipts and canceled checks for rent and utility payments can help you document a pattern of paying your monthly obligations on time.

Things to Remember About Credit:

- Get your credit report a few months before you plan to buy a house so you have time to correct any errors before applying for a mortgage. Your credit score looks most closely at the last 2 years. But the last 7 count too. Your credit tracks your payment history over the last 7 years.

- Try to limit shopping for a mortgage to a 2 or 3 week period. When you apply for a mortgage, the lender requests your credit report and an inquiry of that request shows up on the report. All inquiries during a 2-week period only show as one inquiry. A couple of inquiries on your credit report are okay, but more can lower your credit score.

- Don't apply for new credit or make major purchases, such as a new car, right before you apply for a mortgage.

- If you haven't been paying your bills on time, start today.

Don't be discouraged if you have credit problems. You don't need perfect credit to qualify for a mortgage, but people with perfect credit tend to get better interest rates than people with less-than-perfect credit.

If you believe you have credit problems, get help from a credit counseling agency before you apply for a mortgage. It happens — your credit isn't perfect. Divorce, losing a job, emergency medical expenses and simply not managing your money well can all result in credit difficulties.

Find A Credit Counselor

Don't wait! As soon as you realize you are having difficulty with your credit, talk to someone. A credit counselor can provide:

1. Credit education
2. Confidential budget and debt counseling
3. Debt repayment programs
4. Financial management education

Counseling Agencies

- **The National Foundation for Consumer Credit** (NFCC) is a network of 1,300 local non-profit organizations that provide consumer credit education, confidential budget and debt counseling, and debt repayment programs to families and individuals. Web site: **http://www.nfcc.org/**

- **HUD** funds housing counseling agencies throughout the country who can give you advice on buying a home, renting, defaults, foreclosures, credit issues and reverse mortgages. Website: **http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm**

Be sure that you carefully investigate organizations that promote "easy" debt consolidation programs or offer to "repair" your credit report for a fee. If you do face serious credit problems, there are no "easy" answers.

Get Your Financial Picture in Order

Once you have reviewed your credit, focus on the rest of your financial picture before you buy a home. Mortgage lenders look at other information besides your credit score and credit record before deciding whether to give you a mortgage. They look at:

1. Stability of your income
2. Employment history
3. Monthly debt payments (credit card bills, car loans, etc.) in relation to your income
4. How you save money and how much you have saved
5. The type of mortgage you are considering
6. The type and value of the property you want to buy
7. The amount of the down payment you plan to make
8. On-time payment of rent and utilities

2. Make a Budget

A budget will help you meet your monthly bills, and therefore help your credit. It also can help increase your savings. Demonstrating your ability to save and having funds on hand will help you in the mortgage approval process. Your personal savings should be sufficient to last several months should you lose your job or source of income.

How to Make a Budget:

1. Gather receipts and other records of your spending over several months so a “one time” or unexpected expense won’t make your spending look different than it usually is..
2. Monitor your spending for a month to find out how much you spend and where you spend it.
3. Set your financial goals.
4. Make a plan and stick to it.
5. Make budgeting a part of your regular routine.

Once you get comfortable with a budget, you can be more flexible and make adjustments so you are spending money on things that are most important to you. Use your budget to help you stay within your means and make difficult choices. Set goals for what you can't afford today to ensure that you can afford it in the future.

Create a new budget based on buying a home

Set a budget for yourself on your projected mortgage payment. Remember that your budget should include your utility costs and a set savings amount for future home maintenance and repair costs.

3. Organize Your Documents

When you're ready to meet with a mortgage lender to apply for a mortgage, you'll need to provide documentation of your income, taxes, bank accounts and other financial papers.

Gather the following documents:

1. Your pay stubs for the past 30 days
2. Your W-2 forms for the past 2 years
3. Information on your long-term debts (car loans, student loans, etc.)
4. Recent statements from all of your bank accounts and other savings accounts
5. Tax returns for the past 2 years if self-employed
6. Proof of any supplemental income
7. Records of any past derogatory credit history that have since been paid off
8. Records of child support or alimony (either going out or coming in)

4. Find a Mortgage Provider

You can get a mortgage from many different sources, like mortgage banking companies, commercial banks, community banks, credit unions and other financial institutions. Mortgage brokers may be a source of information about different mortgage products available from a variety of sources.

Some starting places include:

1. Your own bank or financial institution. Sometimes lenders can offer better mortgage terms to current customers.
2. Real estate professionals.
3. Family members, friends and coworkers.
4. Internet research.
5. Call an Account Manager at American Family Funds to recommend a mortgage professional that is familiar with using our No Down Payment Gift Program at 888-869-0420.

Tips to Consider

When you're comparing mortgage company rates and programs, the following information can come in handy.

Points

When inquiring about rates, be sure to ask if the quoted interest rate reflects payment of points. Many loan programs allow you to receive a discounted interest rate by paying a fee in points or origination fees. One point equals 1% of the loan amount, and the more points you can or wish to pay, the more you can lower your rate. Paying points is not a requirement; it's just an option that lenders offer to accommodate the immediate or long-term monthly payment concerns of home mortgage customers.

The Annual Percentage Rate

Make sure you ask lenders for the annual percentage rate (APR) as well as the interest rate, so you compare it accurately to other available mortgage rates. In addition to the interest rate (which determines the amount of your monthly payment), the APR adds in the other costs required to make the loan to determine your loan's total finance charge, expressed as a percentage over the scheduled life of your loan. After you apply for your mortgage, you will receive a Truth-in-Lending Statement. Homebuyers often find this document confusing because it states the APR only, and not the interest rate.

The APR reflects the true cost of a mortgage loan over its full scheduled term as a yearly rate because, in addition to the rate of interest charged on the loan, it includes certain other prepaid finance charges. These charges may include, but are not limited to, origination fees, loan discount points, private mortgage insurance premiums and the estimated interest, prorated from closing date to month end.

Rate Locking and Floating

A lock gives you a specified period of time — from 30 to 120 days —of protection from changes in interest rates by setting the range of pricing available to you. Your rate may still be affected by changes in the loan's characteristics (for example, if you choose to pay fewer points or make a smaller down payment) or in your credit profile. If you choose to float your pricing, then your rate will .will change if the market for mortgage money changes. The benefit to floating is that you would have the option of locking at a lower level if rates should interest rates decrease. The risk, of course, is that you would face a higher interest rate should interest rates rise before you lock. Generally, you'll be able to lock once you have found a property and as late as up to five days before closing. When you lock, make sure the lock period allows enough time for your loan to be processed. If your lock period expires before you're ready to take ownership of the house, your loan pricing may be adjusted to reflect current market conditions.

No one knows if rates will rise or fall, so it's impossible for a mortgage provider to tell you whether or not you should lock your loan. The decision is yours.

Required Financial Disclosure

Lenders are required by law to fully disclose your APR and the costs associated with your mortgage. If the lender hesitates to disclose your costs or indicates the costs cannot be determined until you reach closing, consider finding another lender. You have the right to know what you are paying for your mortgage and what the other costs of buying your home are.

5. Get Pre-Approved for a Mortgage

If you think homeownership is for you, we highly recommend getting pre-approved for a mortgage. By completing your mortgage application prior to choosing a home, you can get a pre-approval letter that lets you know how much home you can afford. Getting this pre-approval letter is a smart move because it lets you know exactly how much you can spend, and shows prospective sellers and real estate agents that you're a serious buyer. In addition, many sellers will require a pre-approval letter prior to reviewing an offer.

Pre-approval helps you to:

1. Know how much you can borrow.
2. Confirm your ability to qualify for a mortgage based on your credit, financial and employment information.
3. Strengthen your position to make an offer on a house. A seller will be more willing to accept an offer if the buyer is pre-approved.

To become pre-approved, you'll need to work with a mortgage lender. The mortgage lender will review your credit history, earnings information, employment history and assets. You will need to provide certain documents to the lender to verify this information. After the review, the lender will give you a "pre-approval letter." The pre approval letter tells home sellers that you have the ability to qualify for a certain mortgage amount.

Getting pre-approved is not the same thing as getting pre-qualified. Pre-qualification simply states that the borrower qualifies for a loan based on some preliminary questions but does not commit the mortgage lender to approve the mortgage. To get pre-approved, the mortgage lender will have to conduct a complete review of your financial situation, including your credit report and your income and employment history.

Completing the Mortgage Application

There are generally six areas that must be filled in:

1. Personal Data-	Full names, addresses, and Social Security numbers of all borrowers.
2. Income-	The amount and source(s) of income for all borrowers.
3. Assets-	Information on all assets you'll be using to qualify for the loan, such as checking and savings accounts, stocks and bonds, retirement plans, and other real estate owned.
4. Debts and Obligations-	Information on all outstanding debts and other financial obligations.
5. Credit References-	Information concerning loans or debts that have been paid, plus any other references to good credit use.
6. Property Information-	Specifics on the property you wish to buy, if you've chosen one.

5. Fixed-Rate Mortgages

Fixed-rate mortgages are stable and offer long-term savings. Because the interest rate never changes, the monthly principal and interest payment never changes either. If you plan to own your home for at least 5 years, a fixed-rate mortgage can help protect you from inflation. Because your mortgage principal and interest payment remains the same it is easier to budget.

Other Considerations

- Fixed-rate mortgages may be offered with 10, 15, 20 and 30 year terms.
- A monthly principal and interest payment that doesn't change helps with financial planning.
- If interest rates go down, your monthly principal and interest payment will not decrease unless you refinance your mortgage.

Compare Different Terms

Longer Terms such as 20 and 30 years:
- Qualify for a larger loan amount.
- Have higher interest rates.
- Pay more interest in total than shorter term loans.
- Are a good choice if you don't plan to move or refinance for at least 10 years or if interest rates were low when you locked in the rate.

Shorter terms such as 10 and 15 years:
- Have lower interest rates.
- Have a shorter period (term) to pay back the principal.
- Because of the shorter term the monthly payments are higher but more of the payment goes to principal and less to interest.

- Build equity faster.
- Have higher monthly payments – which means you may qualify for a smaller loan amount.
- Are a good choice if you want to build equity quickly or you'd rather pay less interest than buy a more expensive home.

Low-Down-Payment Options available with fixed-rate mortgages

Saving enough money for a down payment can be hard and meeting lender underwriting requirements can be challenging. Sometimes this prevents people from buying a home. Some mortgage lenders offer low-down-payment fixed-rate mortgages and mortgages with more flexible underwriting.

Some mortgages need as little as a 3% down payment. Others raise the maximum debt-to-income ratio, allowing you to qualify for a mortgage payment that is a larger percentage of your monthly income.

Ask your lender about fixed-rate mortgages with low-down-payment features like:

- Small down payments (3% to 5%)
- Additional sources of money for the down payment, like a federal, state or local government agency, nonprofit organization such as **American Family Funds**, employers, private foundation or family member
- Expanded debt-to-income ratios (sometimes, up to 33% of gross monthly income for housing expenses and 38% for total monthly debt expenses)
- Options for people with limited incomes in high-cost areas
- Homebuyer education programs
- Lower mortgage insurance costs
- Seller contributions to your closing costs

Be sure to contact your lender for all the specifics related to loans with this type of option.

Other factors to Consider

The mortgage type, rate and length as well as points are all factors in deciding which mortgage is right for you. The lowest mortgage rate may not always be the best choice for you. Rates are important, but also consider the overall cost of the loan.

Look at other costs such as loan and origination fees, and discount and origination points. Be sure to ask the lender exactly what he or she is quoting to you. Ask what the annual percentage rate (APR) of the loan is. The APR takes into account the interest rate and fees.

Ask for a "good-faith estimate" in writing from each lender that you work with so you understand all of the costs and you can compare lenders.

6. Look for a House

Now you are finally ready for the fun part- house hunting! But first, you need to answer some basic questions.

Wants vs. Needs

Before you begin house hunting, create a realistic list to narrow your search. Looking for a home can take time, especially if you are not focused on what is most important.

Create a wish list and a must have list. Wish list items might be things like fireplaces, whirlpool tubs in the baths, ceramic tile floors, or garages—things you would like to have but will not affect your comfort in basic ways. Must have items are the number of bedrooms, how many baths, whether there is a large yard or not, or public utilities rather than a well or septic—things that will affect your ability to live in the house comfortably and meet your family's needs. Many people focus more on what they want rather than what they need. As a result, they sometimes reject homes that perfectly meet their needs in search of homes that meet their wants. That's not to say that you shouldn't try to get what you want – you should just be able to tell the difference between what you really need and what you would like to have.

Find a Neighborhood

Now that you know your housing wants and needs, decide what you are looking for in a neighborhood. Where you live is as important as the house you live in.

Some questions to consider:

Commute:	Do I need a quick commute to work? Keep in mind short commutes limit your neighborhood options.
My personality:	Do I prefer country, suburban or urban living?
Family:	Is a certain school district important to me? Do I want or need to live near my parents or relatives?
Downtime:	Do I want to live close to my church or temple or have a short commute to work or school?
Future zoning:	Is the park behind my house going to be developed in the future? Does this small town have plans to build a mega-shopping mall?
Neighborhood age:	What will a new neighborhood look like in 10 years? Am I satisfied with an older neighborhood, knowing it may not change much?
Time of day:	Does the neighborhood feel the same at night as it does during the day? Is weekend traffic heavier than during the weekday?
Extra costs:	Can I afford the county or city taxes or any homeowners' association fees?
Homeowners' Associations:	What are the homeowners' association rules? Are they good for protecting home values?
Neighborhood investment:	Have the homes in this neighborhood held or increased in value?

Where you live is as important as the house you live in. When you find neighborhoods that you like, talk to the people who live there. They'll be the most knowledgeable about the area and may be your future neighbors.

Find a Real Estate Professional

Real estate professionals can help you find the best home to meet your needs. Ask your family and friends for the names of real estate professionals with whom they've worked. Or, ask your mortgage provider for a referral.

You'll want to choose a professional that makes you feel comfortable and can provide the knowledge and services you need.

Most real estate professionals' services are paid for by the seller. This means the real estate agent is working as a sales agent for the seller, not the buyer. The buyer does not pay the real estate professional unless they have contracted with a "buyer's agent." A buyer's agent is a real estate professional who is paid for by the buyer and therefore solely represents the interests of the buyer.

Questions to Ask a Real Estate Professional

1. How long have you been in real estate?
2. Are you a full-time real estate professional?
3. Are you familiar with the community in which I want to look?
4. How many homes have you sold in the last year?
5. What is the average sale price of the homes you sold last year?
6. Do you usually work with sellers or buyers?
7. How many buyers are you presently working with? Are you acting as the exclusive "buyer's agent"?
8. How many sellers are you presently working with?
9. What do you consider your strengths?
10. Can you please provide the names of three homebuyers as references?

House Hunting

House hunting can become slightly overwhelming. You may get frustrated that you haven't found your dream home or get so excited you forget to focus on your wants and needs.

Hints for house hunting:

- Carry a camera, take photos of the house.
- Don't make an immediate decision. Selecting a home is a decision that takes time.
- Review your notes, and compare houses against your wants, needs and budget.
- Bring your spouse, a family member or friend. It's useful to get their feedback.
- Find out utility and maintenance costs. Ask the owners or ask your real estate professional to find out.

Observations When Looking at a Home:

It's important that you conduct a home inspection to evaluate the home's condition. Most people selling their homes are honest and disclose problems. However, some people may try to hide flaws. These hidden problems can cost a lot of money if you buy the home without knowing about them. Be observant! If you notice any undisclosed problems, ask your real estate professional to get you answers.

Some questions to ask:

- Are there large cracks or shifts in the foundation?
- Are there leaks or water marks around eaves and downspouts outside the house or windows and ceilings inside the house?
- Does the basement look or smell damp?
- Is the house tightly sealed? Are there drafts from any windows, doors, attic areas or crawl spaces?
- How much are the energy bills?
- Does the drainage lead away from the house and appear to be in good condition?
- Do soggy spots on the lawn exist? Are any trees too close to the house or look to be unhealthy or dead?
- How old is the roof and what is its condition?
- In older homes, is the foundation settling poorly? Are the roof lines and porches parallel or are there sags? Are the steps pulling away from the foundation?
- In newer homes, are there a lot of nail pops inside the house or do the floors creak or give in when I walk on them?
- Is the water clear and odor free? How is the water pressure? Are there unusual noises when the plumbing is active?
- In older homes, has the electrical system been updated? Are there 3-pronged safety outlets or are appliances plugged in with adapters or extension cord? Do the lights flicker?

Determining Home Value

Once you've found the right home, you'll need to know the real value of the house so that you can make an educated offer.

A home's value is determined by the following:

Sale Price History:	Past sale prices of the home are available through county courthouses, recorder's offices and your real estate professional. Pay attention to trends in appreciation or depreciation on the home.
Home Characteristics:	The number of bedrooms and bathrooms, square footage and other characteristics of the home. You can get this information in tax assessor's offices nationwide and through national data vendors.
Similar Home Prices:	Ask your real estate professional to get sale prices of comparable homes in the neighborhood.

7. Make an Offer

When you make an "offer" or "bid", the seller of the home can accept or reject it, make a counter-offer or not respond. Many buyers believe that even though they have made an offer, they can still look at other homes. However, if you are notified that the seller has accepted your offer, it's a legally binding contract.

If the seller rejects your offer, makes a counteroffer or doesn't respond; your options remain open. You can accept the counteroffer, make another offer or reject it and keep looking.

It's important that you think through your decision before you make an offer.

Be specific about what is in your offer:

1. Your proposed purchase price – the offer.
2. Concessions you would like seller to make, like helping with the closing costs or using the American Family Funds Down Payment Gift Program.
3. Financing contingencies, like approval of a satisfactory mortgage with specific interest rate and terms, etc.
4. Home inspection contingencies – what will happen if the house doesn't pass inspection.
5. Conveyances – what will be included in the sale, like a refrigerator or washer/dryer.
6. The amount of earnest money – your deposit – that is being attached to the offer.

NOTE: Make sure everything is in writing. Never make verbal agreements. Verbal agreements and promises are not binding and cannot be enforced. If an agreement or promise is not in writing, it doesn't exist.

Negotiating a Sales Price

If you want to negotiate the price of a home with the seller, decide who has the stronger bargaining position.

If the local market is active with many other buyers interested in the home or if you have little money saved for your down payment and/or closing costs and you plan to make an offer using American Family Funds Down Payment Gift Program the seller may have the stronger position. If your local market is not active and the seller really needs to sell the home, you may be in a stronger position to negotiate.

Remember negotiating has several stages:

1. Initial asking price or list price by the seller.
2. An initial purchase offer with contingencies including inspection and financing.
3. Acceptance of offer or a counter-offer by the seller. The counteroffer process can take some time as you and the seller find a mutually agreeable price and begin the home inspection and financing phases. If you included an inspection or appraisal contingency and if either reveals serious defects, you will likely want to submit a new counteroffer.

Like any negotiation, the seller will probably ask for more than they are willing to sell for and then be prepared to lower the price if they must. The seller will also be expecting you as the buyer to offer less than you are willing to pay.

When the Offer Becomes a Contract

Keep in mind that the offer that you sign becomes a legal contract. If the seller accepts what's written in the offer – the offer becomes a contract and you have bought a home. If you change your mind after you have a contract, you will probably lose your earnest money, and you can be sued by the seller if you cancel the contract. Most contracts include the following language: "This is a legally binding contract. If not understood, seek competent advice before signing."

Depending on where your home is located, most real estate contracts will contain these items:

- Legal description and address of the property
- Selling price
- Mortgage contingency: meaning the sale is subject to you getting a specific mortgage, rate and term
- Deposit: how much money you will pay when you sign the contract
- Closing date and location
- Conveyances: what is included in the sale of the house.
- Home Inspection: when the inspection will take place and a plan for any potential issues
- Warranties: a list and description of any warranties that come with the house
- Well & Septic: if the property has either, they must be tested and pass inspection
- Possession Date: the date you can move in, usually the closing day or shortly after it
- Acceptance: how long the seller has to respond to your offer
- Arbitration: how you and the seller will deal with any disagreements
- Insurance: whose insurance covers the home until the closing date
- Property Disclosures: notification of any issues or problems with the property

Home Inspection

Owning a home means more than making monthly mortgage payments. Maintaining the home can be just as costly. That's why it's important that a home inspector evaluates the home. Once you've made an offer, you should hire a professional home inspector to give you an objective, comprehensive report before closing. Think about testing for environmental hazards like lead paint, asbestos and radon. You will pay for the inspection, but the money spent now can prevent major repair expenses after you own the home.

8. Get a Ratified Sales Contract

Once your offer has been approved, you will need the ratified sales contract when you return to the lender to complete the mortgage process. A ratified sales contract is simply the offer you made to the seller that the seller accepted and you both signed off on.

This offer may include:

- Sale price of the house
- Contingencies, such as getting mortgage financing of a certain type and rate, satisfactory inspection, and any repairs that need to be made
- Closing and occupancy dates

Earnest Money Deposit

As part of the ratified sales contract, you will submit an earnest money deposit to show that you are a serious buyer. This money will be placed in an escrow account and applied to your closing costs. Your mortgage lender will want to see a receipt for the earnest money along with your ratified sales contract so it's a good idea to bring both of these items with you when you apply for the mortgage.

Note: The earnest money is usually not returnable if you don't complete the terms of the contract.

9. Apply For a Mortgage

Once you choose a mortgage lender and you decide on a mortgage product, you will need to fill out a mortgage application. (You may have already done this if you were pre-approved.)

Mortgage Application Steps

1. Complete the "Uniform Residential Loan Application" which requests your income, assets, liabilities and a description of the property.

2. Pay the application fee which covers the lender's processing costs. Be sure to find out if there is a refund policy.

3. Submit the application

Mortgage Decisions

1. You'll need to decide how much money to borrow when you submit your application. The amount of your mortgage will be based on the purchase price of your house and your down payment. It's important to do your homework before the application process; that's why we recommend getting pre-approved.

2. Deciding on a Settlement Date

3. Locking in a Rate- Mortgage rates frequently change. With many lenders you can "lock in" a mortgage rate. Locking in a rate allows you to complete the mortgage process knowing the exact interest rate. If you believe rates will increase while your mortgage is being processed, you might lock in the current interest rate through your closing date. If you choose not to lock your rate, you can "float." This means that instead of immediately locking, you have the opportunity to follow the trends in market rates and choose to lock when rates are more favorable. However, you will have to lock your rate at the end of the float period, usually 72 hours before closing. Check with the lender to see if you can lock in a rate when applying for your mortgage or if you need to wait for approval. Ask how long the rate lock remains in effect and if the lender charges fees or points to lock in the rate.

4. The Qualification Process- A loan underwriter will review and decide whether to approve your loan application. You can help the process by responding quickly to the underwriter's requests. Be honest about any problems you've had with your credit. Check with your lender from time to time to get the status of your application. If you are turned down for a mortgage, ask why. There could be a number of reasons, like not enough savings in your bank account or needing

to improve your credit. By law, you should receive a written disclosure statement from the lender indicating the reasons for declining the loan.

Try qualifying for a smaller mortgage or pay off some debt and try again at a later date. Develop a plan with your lender to better your position to buy a home.

Required Documents:

Your lender is required by law to provide you with several kinds of documents once you apply. They include:

Truth-in-Lending Disclosure:
Federal law requires disclosure of a “truth in lending statement” for consumer loans. The statement includes a summary of the total cost of credit such as the APR and other specifics of the loan.

"*A Home Buyer's Guide to Settlement Costs":*
This document is a government publication that describes the closing or "settlement" process and its costs as well as information on your rights.

ARMs Disclosure:
Contains information on the important terms and costs of an adjustable-rate mortgage, the past performance of the index to which the interest rate will be tied and a copy of the booklet, "Consumer Handbook on Adjustable-Rate Mortgages."

Your Annual Percentage Rate or "APR":
This is the cost of credit expressed as a yearly rate. The APR includes the interest rate, points, broker fee and certain other charges that the borrower is required to pay.

Good Faith Estimate
Your mortgage lender must provide you with a written good faith estimate of closing costs within 3 days of receiving your completed mortgage application.

The Approval Process

After you’ve completed the application, your lender will need to verify the information you provided and return a decision on your application. This means your lender will review your credit report and other financial information to make an underwriting decision regarding the degree of risk involved in lending you money. If there are any initial questions about your approval decision, the loan application is forwarded to a trained underwriting expert for a full review. Based on the information from your credit report and the type of property you want to finance, you may need to provide additional documents or letters that:

• Verify the income you’ll use for loan qualification
• Confirm your down payment and closing expenses in your bank account
• Clarify any incorrect items on your credit report
• Verify any debts not listed on your credit report

Processing- Your mortgage specialist collects the information needed to process your loan. Documentation requirements vary depending on the real estate laws of the state you live in, on the loan program you apply for, and your individual financial and credit profile. An appraisal will be ordered to determine the fair market value of the property you wish to purchase.

Appraisal- The lender will get an appraisal on the property because it is the collateral for your mortgage. A professional appraiser will determine the market value of the property. The appraiser is an independent evaluator of the value of the home you are buying. The appraiser does not work for the lender or the real estate company that listed your house. You will be charged a fee for this service.

Credit Report- The lender will request a credit report that will verify your credit history and how past creditors were paid. You will need to sign a form and will be charged a fee for ordering the report. If you are pre-approved you may have already completed this step.

Employment and Bank Account Verification- In most cases the lender can verify your income and employment information with W2 statements for the past 2 years and the most recent 30 days of pay stubs. For bank account information the lender will need the most recent 2-3 months of bank statements. If you can not provide the documents above then the lender will mail out a Verification of Employment (VOE) and Verification of Deposit (VOD) on your behalf. The VOE verifies your last 2 years of employment and income. The VOD verifies your account information and includes information on banking and stocks.

If you are using American Family Funds Down Payment Gift Program, the lender must verify through a Gift Letter that funds will be given to you at the closing.

Determining Approval

Many home mortgage applications are approved quickly. On occasion, loan applications need further review. Your mortgage provider will evaluate your financing requirements and do everything possible to help approve your application. In the case that your application is not approved, they will work with you to determine what needs to be done in order for you to obtain financing. The approval process may take a few days or may take several weeks. Remember that the approval process occurs during the normal working week. Holidays can extend the approval process.

Pre-Closing

Once your mortgage is approved, your lender will order title insurance. Title insurance protects you and the mortgage lender against legal problems with the title, like a lien on the property with the previous owner. The lender's policy only protects the lender. If you want this type of protection you will need to secure a separate "owner's policy." You may be entitled to a reduced rate if you purchase both policies at the same time.

Unless you pay cash for your home, you'll need a valid homeowner's insurance policy before you close on your mortgage. The policy will protect you and the lender from: Casualty, like fire, wind or hail – damage to the structure of the house. For flood prone areas, you may need a separate flood policy. Liability in case a visitor is injured at your home. Personal property coverage for damage to things like your furniture, clothes or appliances.

Types of Structural Insurance

Replacement Cost:

The cost of replacing damaged property with no deduction but with a maximum dollar amount.

Guaranteed Replacement Cost:

Full cost of replacing damaged property with depreciation deduction or a maximum dollar amount.

Actual Cash Value:

An amount equal to the replacement value of damaged property minus a depreciation allowance.

The lender will require that you have enough insurance to rebuild your home if it were destroyed.

Think about:

- Local construction costs
- Square footage of the house
- Type of exterior construction, like brick or frame
- Style of house
- Number of rooms and bathrooms
- Type of roof
- Special features like a garage or fireplace

Saving Money on Insurance

Shop around. Compare price and quality of service. Ask your family and friends. Check with Standard & Poor's or AM Best. Increase your deductible. The higher the deductible, the more you save. But don't get a deductible that would be too much for you to pay. Consolidate your insurance. Buy homeowner's and car insurance with the same company. You'll usually get a discount of up to 15%. Look at the age of your home. The newer the home and equipment, the lower the insurance costs. Construction resistant to wind and earthquake damage will also lower rates. Don't insure the cost of the land under your home. Be safe! Install smoke detectors, security systems and dead bolts. Safety features can lower insurance. Quit smoking. Some companies offer reduced rates for nonsmokers. If you're over 55 say so. Senior citizens can get discounts. Get group coverage. Try your college, credit union or business associations. Stay with your insurance company. Some companies reward loyal clients with reduced premiums.

Schedule your Closing

A closing date will be set when your mortgage is approved and you sign a commitment letter. Your closing date should occur before the commitment letter and interest rate lock-in expire. Request that your closing agent give you a HUD-1 Settlement Statement which is a final listing of the costs of the mortgage transaction. It provides the sales price, and down payment, and the total settlement costs required from the buyer and seller.

10. Closing

The final step to buying a home is the closing. At your closing, ownership of the property is transferred from the seller to you.

Closing Agents and Real Estate Attorneys

At the closing, there needs to be someone who coordinates closing-related activities, like recording the closing documents and disbursing funds. If you are responsible for selecting this person, ask for references from your mortgage provider, real estate professional or friends and family members who have hired one.

Closings can be handled by real estate brokers, lenders, attorneys for the buyers and sellers, insurance companies or escrow companies. It's important that you understand the closing activities in your area before you go to your closing.

Closing Costs Can Include:

1. Your first mortgage payment
2. Your mortgage application fee
3. The loan origination fee
4. The mortgage loan processing fee
5. A loan assumption fee if you are assuming the seller's mortgage
6. Private mortgage insurance if your down payment is less than 20 percent of the mortgage
7. The homeowner's insurance premium for the first year
8. Escrow account reserves for insurance or property taxes
9. Property tax payments
10. Any survey or inspection fees
11. Legal fees
12. Appraisal fee
13. Title search fee
14. Title insurance premium
15. Settlement company fee
16. Deed recording fee
17. Credit report fee
18. Transfer taxes

The Closing Meeting

You'll sign a number of documents related to the mortgage, as well as pay closing costs. Your closing costs may be part of your mortgage or they might be paid by the seller or builder of the home. Each closing is different.

The meeting generally takes about an hour and is held at the offices of the closing agent. In some parts of the country, there are no closing meetings. If that's your case, an escrow agent will process the paperwork, arrange for the documents to be signed and collect and disburse the funds.

Before the Closing Meeting

Ask for your documents prior to the closing and read them carefully. Have a lawyer review them with you if you can afford it. Come to the closing prepared – know and understand what you will sign.

During the Closing Meeting

Your closing agent will review a closing statement with you and the seller of the home and answer any questions. Then both you and the seller will sign the statement.

You will sign other mortgage documents, like the mortgage note and the Truth-in-Lending statement. You'll need to provide evidence of your insurance and inspections.

You and the seller will submit either a certified check or cashier's check to cover the closing costs and the balance of funds due. The lender will submit a check covering the mortgage amount to the closing agent. If your lender will be responsible for paying your annual homeowner's insurance and property taxes, the lender will establish a new escrow account for you at that time.

You will receive the keys to your new home!

Your closing agent will officially record the mortgage and deed at your local government's recording clerk office or registry of deeds. Once the transaction has been recorded, the closing agent disburses the funds to the other parties, such as the seller of the home, the real estate professionals and the lender.

CHAPTER 8: NOW THAT I OWN MY HOME, WHAT DO I NEED TO DO TO PREVENT FORECLOSURE?

Once you're in your new home, you'll need to make your monthly mortgage payments each month and on time. If you don't make your mortgage payments over a period of time, your mortgage lender can foreclose on your house. Foreclosure means that the lender takes the title to your property for nonpayment and sells the property to recover the amount you owe the lender. As a result of foreclosure, you would no longer be able to live in your house and you would lose all of the equity you held in your home including your down payment. If this happens, the foreclosure becomes part of your credit record. This may adversely affect your ability to secure credit in the future.

Be sure that you understand the serious commitment you are undertaking when you decide to buy a home. Develop a savings plan to protect your investment in your home. Financial planners usually recommend that you save 3 to 6 months worth of expenses in case you lose your job or become seriously ill. If you do foresee that you will have a problem making your monthly mortgage payments, contact your mortgage lender immediately. Mortgage lenders will work with you to avoid a foreclosure.

What do I do if I can’t make my mortgage payment?

For most families, a home is not only a significant financial investment but also a source of pride. The loss of a home, due to unexpected events can be financially and personally devastating. If you have been laid off or are facing unemployment, you can keep your home, if you know the right steps to take.

Financial problems are most often associated with the following life changes:

1. Loss of job
2. Reduced work Hours
3. Illness, injury, or death of a family member
4. Divorce or separation

If your family is facing any of these changes and cannot pay your bills, now is the time to look closely at what you owe and what you earn, eliminating unnecessary spending and reaching out for help if you still can't meet your financial obligations. Taking action now can help you protect your family from the loss of your home. This page was created to help you find advice, information, and web links that will help you keep your home.

CHAPTER 9: STEPS TO TAKE WHEN YOU MAY NOT BE ABLE TO PAY YOUR MORTGAGE

1. Contact Your Lender
2. Talk To A Housing Counseling Agency
3. Prioritize Your Debts
4. Explore Loan Workout Solutions
5. Beware of Predatory Lending Schemes
6. Preserve Your Good Credit

1. Contact Your Lender

Many people avoid calling their lenders when they have money troubles. Many people believe that if lenders know they are in trouble, the lender will rush to collection or foreclosure.

However, the truth is quite the opposite. Lenders want to help borrowers keep their homes. Foreclosure is expensive for lenders, mortgage insurers and investors. HUD/FHA and private mortgage insurance companies require lenders to work aggressively with borrowers who are facing money problems.

Lenders have options to help you keep your home. However, these options work best when your loan is only one or two payments behind. The longer you are late on your payments, the fewer options are available.

Contact your mortgage lender to discuss your circumstances as soon as you realize that you are unable to make your payments. While there is no guarantee that any particular relief will be given, most lenders are willing to explore every possible option.

How to contact your lender:

The contact information should be available on your monthly mortgage billing statement or on your payment coupon book.

Information to Have Ready When You Call:

1. Your loan account number

2. A brief explanation of your circumstances

3. Recent income documents (such as Pay stubs; Benefit Statements from Social Security, Disability, Unemployment, Retirement, or Public Assistance. If you are Self-Employed, have your tax returns or a Year-to-date Profit and Loss Statement available for reference)

4. List of household expenses

Typically, your lender will mail you a "loan workout" package. This package contains information, forms and instructions. If you want to be considered for assistance, you must complete the forms and return them to your lender quickly. The completed package will be reviewed before the lender talks about a solution with you.

REMEMBER: The sooner you call; the sooner help is available.

Do Not Ignore Mail from your Lender

If you do not contact your lender, your lender will try to contact you by mail and phone soon after you stop making payments. It is very important that you respond to the mail and the phone calls offering help. If your lender does not hear from you they will be required to start legal action leading to foreclosure. This will substantially increase the cost of bringing your loan current.

2. Talk to a Housing Counseling Agency

If you don't feel comfortable talking with your lender, you should immediately contact a HUD-approved housing counseling agency and arrange an appointment with a counselor. A counselor will help you assess your financial situation, determine what options are available to you, and help you negotiate with your lender. A counselor will be familiar with the various arrangements that lenders will consider and will know what course of action makes the most sense for you and your family. In addition, the counselor can call the lender with you or on your behalf to discuss an arrangement. By meeting with a counselor before your mortgage payments are too far behind, you can protect yourself from future credit problems.

A counselor can help you establish a monthly budget plan to ensure that you can meet all of your monthly expenses, including your mortgage payment. Your personal financial plan will clearly show how much money you have available to make the mortgage payment. This analysis will help you and your lender determine whether a reduced or delayed payment schedule could help you. Also, a counselor will have information on services, resources, and programs available in your local area that may provide you with additional financial, legal, medical or other assistance that you may need.

To find out more about HUD-approved housing counseling agencies and their services, please call 1 (800) 569-4287 on weekdays between 9:00 am and 5:00 pm Eastern Standard Time. To look at the list of these HUD-approved agencies by state on the HUD web site, **click here** **http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm**

Many of these local housing counseling agencies are affiliates of national and regional housing counseling intermediaries. The websites for the HUD-approved National and Regional Housing Counseling Intermediaries describe the full range of assistance offered, as well as maps showing location of their affiliates.

3. Prioritize your Debts

For the unemployed, getting by will require a new, tightened budget. Prioritize your bills and pay those most necessary for your family: food, utilities and shelter.

Failing to pay any of your debts can seriously affect your credit rating. However, if you stop making your mortgage payments you could lose your house. Whenever possible, any income available after paying for food and utilities should be used to pay your monthly mortgage payments. If your employment income has been stopped or reduced, first consider eliminating or reducing your other expenses (such as dining out, entertainment, cable, or even telephone services). If that does not provide enough income, consider using other financial resources like stocks, savings accounts, or personal property that may have value like a boat or a second car. Take any responsible action that will save cash.

In addition to speaking with your lender, you may want to contact a nonprofit consumer credit counseling agency that specializes in providing help in restructuring credit payments. Credit counselors can often reduce your monthly bills by negotiating reduced payments or long-term payment plans with your creditors. The majority of credit counseling agencies provide their services free of charge or for a small monthly administrative fee tied to a repayment plan. Beware of credit counseling agencies that offer counseling for a large upfront fee or donation.

For consumer debt advice contact the National Foundation for Credit Counseling at (800) 569-4287 or TDD: 1-800-877-8339. These agencies can provide financial counseling or refer you to a local credit counseling agency.

When you call a consumer credit counseling agency, you will be asked to provide current information about your income and expenses. Make sure you ask if the agency has a charge before you sign any documents!

4. Explore Loan Workout Solutions

First and foremost, if you can keep your mortgage current, do so. However, if you find that you are unable to make your mortgage payments, you may qualify for a loan workout option. Check with your lender to find out which of these options may be available.

Solutions for temporary problems:

Reinstatement: Your lender is always willing to discuss accepting the total amount owed to them in a lump sum by a specific date. They will often combine this option with a forbearance.

Forbearance: Your lender may allow you to reduce or suspend payments for a short period of time after which another option must be agreed upon to bring your loan current. A forbearance option is often combined with a Reinstatement when you know you will have enough money to bring the account current at a specific time in the future.

Repayment Plan: You may be able to get an agreement to resume making your regular monthly payments, in addition to a portion of the past due payments each month until you are caught up.

Solutions for long term problems:

Mortgage Modification:

If you can make the payments on your loan, but you do not have enough money to bring your account current or you cannot afford the total amount of your current payment, your lender may be able to change one or more terms of your original loan to make the payments more affordable. Your loan could be permanently changed in one or more of the following ways:

1. Adding the missed payments to the existing loan balance.

2. Changing the interest rate, including making an adjustable rate into a fixed rate.

3. Extending the number of years you have to repay.

Claim Advance: If your mortgage is insured, you may qualify for an interest-free loan from your mortgage guarantor to bring your account current. The repayment of this loan may be delayed for several years.

Sale: If you can no longer afford your home, your lender will usually agree to give you a specific amount of time to find a purchaser and pay off the total amount owed. You will be expected to obtain the services of a real estate professional who can aggressively market the property.

Pre-Foreclosure Sale or Short Payoff:

If the property's sales value is not enough to pay the loan in full, your lender may be able to accept less than the full amount owed. This option can also include a period of time to allow your real estate agent to market the property and find a qualified buyer. Monetary help may also be available to pay other lien holders and/or help toward paying a few moving costs.

Assumption: A qualified buyer may be allowed to assume your mortgage, even if your original loan documents state that it is non-assumable.

Deed-in-lieu: Your lender may agree to allow you to voluntarily "give back" your property and forgive the debt. Although this option sounds like the easiest way out for you, generally, you must attempt to sell the home for its fair market value for at least 90 days before the lender will consider this option. Also, this option may not be available if you have other liens such as judgments of other creditors, second mortgages, and IRS or State Tax liens.

5. Beware of Schemes

Most mortgage lenders are reputable and provide a valuable service by allowing families to own a home without saving the thousands or hundreds of thousands of dollars necessary to buy it outright. However, a few, lenders engage in practices that can increase the likelihood that a borrower will lose his or her home to foreclosure. These abusive practices include making a mortgage loan to an individual who does not have the income to repay it, charging excessive interest, points and fees or repeatedly refinancing a loan without providing any real value to the borrower.

Borrowers facing unemployment and/or foreclosure are frequent targets of predatory lenders because they are desperate to find any "solution" to their default.

Homeowners frequently receive refinance offers in the mail telling them that they have been "pre-approved" for credit based on the equity in their home. When you are wondering how you are going to pay your mortgage and other bills, it may appear very attractive to borrow against your house. But consider this, if you cannot make your current payments, increasing your debt, even if you get some temporary cash, will make it harder to keep your home.

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

In this type of scam, a "buyer" approaches you, offering to get you out of financial trouble by promising 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, does not make any mortgage payments, and allows the lender to foreclose. Remember, signing over your deed to someone else does not 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** at **(800) 569-4287** or **TDD (800) 877-8339** before you pay anyone or sign anything.

Are There Any Precautions I Can Take?

1. Don't sign any papers you don't fully understand.
2. Make sure you get all "promises" in writing.
3. Beware of any contract of sale of loan assumption where you are not formally released from liability for your mortgage debt.
4. Check with a lawyer or your mortgage company before entering into any deal involving your home.
5. If you're selling the house yourself to avoid foreclosure, check to see if there are any complaints against the prospective buyer. You can contact your state's Attorney General, the State Real Estate Commission, or the local District Attorney's Consumer Fraud Unit for this type of information.

Information is your best defense against becoming a victim! For more information about Predatory Lending go to: **HUD's Predatory Lending Web Site at** **http://www.hud.gov/buying/localpredlend.cfm**

6. Preserve your good credit

Do not underestimate the importance of preserving your good credit. Your future ability to purchase certain items, rent or buy a home, and complete other transactions often requires a credit check. Consumer credit agencies and your lender can help you explore solutions to keep your credit from getting blemished.

Congratulations. You've completed our Homebuyer Education & Default Prevention Handbook.

You're now ready to buy a home of your own!

MORTGAGE GLOSSARY OF TERMS

Word	Definition
203(b)	FHA program which provides mortgage insurance to protect lenders from default; used to finance the purchase of new or existing one- to four family housing; characterized by low down payment, flexible qualifying guidelines, limited fees, and a limit on maximum loan amount.
203(k)	FHA mortgage insurance program that enables homebuyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan.

A	
Actual Cash Value	An amount equal to the replacement value of damaged property minus depreciation.
Adjustment Period	The time between interest rate adjustment dates for an ARM. They are usually the initial period between the time the ARM is originated and the first interest rate change date, and subsequent adjustment periods between each interest rate change after the first interest rate change.
Amenity	A feature of the home or property that serves as a benefit to the buyer but that is not necessary to its use; may be natural (like location, Woods, water) or man-made (like a swimming pool or garden).
Amortization	Repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is based on a schedule that will allow you to own your home at the end of a specific time period (for example, 15 or 30 years)
Annual Percentage Rate (APR)	Calculated by using a standard formula, the APR shows the cost of a loan; expressed as a yearly interest rate, it includes the interest, points, mortgage insurance, and other fees associated with the loan.
Application Fee	The fee that a mortgage lender charges to apply for a mortgage to cover processing costs.
Application	The first step in the official loan approval process; this form is used to record important information about the potential borrower necessary to the underwriting process.
Appraisal	A document that gives an estimate of a property's fair market value; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.
Appraiser	A qualified individual who uses his or her experience and knowledge to prepare the appraisal estimate.
Appreciation	An increase in the market value of a home due to changing market conditions and/or home improvements.
Arbitration	A process where disputes are settled by referring them to an impartial third party (arbitrator) chosen by the disputing parties who agree in advance to abide by the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator issues the decision.

ARM	Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the Change in monthly -payment amount, however, is usually subject to a Cap.
Asbestos	A toxic material that was once used to make insulation and fireproofing material in houses. Because some forms of asbestos have been linked to certain lung diseases, it is no longer used in new homes. However, some older homes may still have asbestos in these materials.
Assessor	A government official who is responsible for determining the value of a property for the purpose of taxation.
Assets	Everything of value that an individual owns.
Assumable mortgage	A mortgage that can be transferred from a seller to a buyer; once the loan is assumed by the buyer the seller is no longer responsible for repaying it; there may be a fee and/or a credit package involved in the transfer of an assumable mortgage.
B	
Balloon Mortgage	A mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower.
Bankruptcy	A federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.
Borrower	A person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.
Budget	A detailed record of all income earned and spent during a specific period of time.
Building code	Based on agreed upon safety standards within a specific area, a building code is a regulation that determines the design, construction, and materials used in building.

C	
Cap	A limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease.
Capacity	Your ability to make your mortgage payments on time.
Cash reserves	A cash amount sometimes required to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender.
Certificate of title	A document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.
Closing Agent	A person that coordinates closing-related activities, such as recording the closing documents and disbursing funds.
Closing costs	The customary costs above and beyond the sale price of the property that must be paid to cover the transfer of ownership at closing; these costs generally vary by geographic location and are typically detailed to the borrower after submission of a loan application.
Closing	Also known as settlement, this is the time at which the property is formally sold and transferred from the seller to the buyer; it is at this time that the borrower takes on the loan obligation, pays all closing costs, and receives title from the seller.
Collateral	Property which is pledged as security for a debt.
Commission	An amount, usually a percentage of the property sales price, that is collected by a real estate professional as a fee for negotiating the transaction.
Commitment Letter	A letter from your lender that states the amount of the mortgage, the number of years to repay the mortgage (the term), the interest rate, the loan origination fee, the annual percentage rate and the monthly charges.
Concession	Something yielded or conceded in negotiating a transaction.
Condominium	A form of ownership in which individuals purchase and own a unit of housing in a multi-unit complex; the owner also shares financial responsibility for common areas.

Conventional loan	A private sector loan, one that is not guaranteed or insured by the U.S. government.
Cooperative (Co-op)	Residents purchase stock in a cooperative corporation that owns a structure; each stockholder is then entitled to live in a specific unit of the structure and is responsible for paying a portion of the loan.
Counter-offer	An offer made in return by the person who rejects the previous offer.
Credit bureau score	A number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.
Credit Bureau	A company that gathers information on consumers who use credit and sells that information in the form of a credit report to credit lenders.
Credit history	History of an individual's debt payment; lenders use this information to gouge a potential borrower's ability to repay a loan.
Credit report	A record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history.
D	
Debt	A sum of money owed from one person or institution to another person or institution.
Debt-to-income ratio	A comparison of gross income to housing and non-housing expenses; With the FHA, the-monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.
Deed of Trust	A legal document in which the borrower conveys the title to a 3rd party (trustee) to hold as security for the lender. When the loan is paid in full the trustee re-conveys the deed to the borrower. If the borrower defaults on the loan the trustee will sell the property and pay the lender the mortgage debt.
Deed	The document that transfers ownership of a property.
Deed-in-lieu	To avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Default	The inability to pay monthly mortgage payments in a timely manner or to otherwise meet the mortgage terms.
Delinquency	Failure of a borrower to make timely mortgage payments under a loan agreement.
Deposit	The amount of money you put down on a house to hold it.
Depreciation	A decline in the value of a house due to changing market conditions, decline of a neighborhood or lack of upkeep on a home.
Discount point	Normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan.
Down payment	The portion of a home's purchase price that is paid in cash and is not part of the mortgage loan.
DPA	Down Payment Assistance, a program offered by American Family Funds that assist qualified buyers with the down payment on their new home.
E	
Earnest money	Money put down by a potential buyer to show that he or she is serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal.
EEM	Energy Efficient Mortgage; an FHA program that helps homebuyers save money on utility bills by enabling them to finance the cost of adding energy efficiency features to a new or existing home as part of the home purchase.
Equity	An owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loon(s) from the fair market value of the property.
Escrow account	A separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

F	
Fair Housing Act	A law that prohibits discrimination in all facets of the home buying process on the basis of race, color, national origin, religion, sex, familial status, or disability.
Fair market value	The hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation.
FHA	Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.
Fixed-rate mortgage	A mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.
Flood insurance	Insurance that protects homeowners against losses from a flood; if a home is located in a flood plain; the lender will require flood insurance before approving a loan.
Foreclosure	A legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.
G	
Gift Letter	A letter that a family member or a DPA such as American Family Funds writes verifying that he/she has given you a certain amount of money as a gift and that you do not have to repay it. You can use this money towards a portion of your down payment through some mortgage products.
Good faith estimate	An estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.
Gross Monthly Income	The income you earn in a month before taxes and other deductions.

H	
Home inspection	An examination of the structure and mechanical systems to determine a home's safety; makes the potential homebuyer aware of any repairs that may be needed.
Home warranty	Offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; overage extends over a specific time period and does not cover the home's structure.
Homeowner's insurance	An insurance policy that .combines protection against damage to a dwelling and Is contents with protection against claims of negligence) inappropriate action that result in someone's injury or property damage.
Housing counseling agency	Provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and home buying.
Housing Expense Ratio	The percentage of your gross monthly income that goes toward paying for your housing expenses.
HUD	The U.S. Department of Housing and Urban Development; established in 1965, HUD works to create a decent home and suitable living environment for all Americans; it does this by addressing housing needs, improving and developing American communities, and enforcing fair housing laws.
HUD1 Statement	Also known as the "settlement sheet," it itemizes all closing costs; must be given to the borrower at or before closing.
HVAC	Heating, Ventilation and Air Conditioning; a home's heating and cooling system.
I	
Index	A measurement used by lenders to determine changes to the Interest rate charged on an adjustable rate mortgage.
Individual Retirement Account (IRA)	A tax-deferred plan that can help build a retirement nest egg.

Inflation	The number of dollars in circulation exceeds the amount of goods and services available for purchase; inflation results in a decrease in the dollar's value.
Inquiry	A request for a copy of your credit report. An inquiry occurs every time you fill out a credit application and/or request more credit. Too many inquiries on a credit report can lower your credit score.
Insurance	Protection against a specific loss over a period of time that is secured by the payment of a regularly scheduled premium.
Interest rate	The amount of interest charged on a monthly loan payment; usually expressed as a percentage.
Interest	The cost you pay to borrow money. It is the payment you make to a lender for the money it has lent to you. Interest is usually expressed as a percentage of the amount borrowed
J	
Judgment	A legal decision; when requiring debt repayment, a judgment may include a property lien that secures the creditor's claim by providing a collateral source.
K	
Keogh Funds	A tax-deferred retirement-savings plan for small business owners or self-employed individuals who have earned income from their trade or business. Contributions to the Keogh plan are tax deductible.
L	
Lease purchase	Assists low- to moderate-income homebuyers in purchasing a home by allowing them to lease a home with an option to buy; the rent payment is made up of the monthly rental payment plus an additional amount that is credited to an account for use as a down payment.
Liabilities	Your debts and other monetary obligations.
Lien	A legal claim against property that must be satisfied When the property is sold

Loan fraud	Purposely giving incorrect information on a loan application in order to better qualify for a loan; may result in civil liability or criminal penalties.
Loan	Money borrowed that is usually repaid with interest.
Loan-to-value (LTV) ratio	A percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.
Lock-in	Since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.
Loss mitigation	A process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan
M	
Margin	An amount the lender adds to an index to determine the interest rate on an adjustable rate mortgage.
Mortgage banker	A company that originates loans and resells them to secondary mortgage
Mortgage broker	A firm that originates and processes loans for a number of lenders.
Mortgage insurance (MI)	A policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price.
Mortgage insurance premium (MIP)	A monthly payment -usually part of the mortgage payment - paid by a borrower for mortgage insurance.
Mortgage Lender	The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.
Mortgage Modification	A loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan, thus reducing the monthly payments.
Mortgage Rate	The cost or the interest rate you pay to borrow the money to buy your house.

Mortgage	A lien on the property that secures the Promise to repay a loan.
Mutual Funds	A fund that pools the money of its investors to buy a variety of securities.
O	
Offer	Indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing.
Open House	When the seller's real estate agent opens the seller's house to the public. You do not need a real estate agent to attend an open house.
Origination fee	The charge for originating a loan; is usually calculated in the form of points and paid at closing.
Origination	The process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal.
P	
Partial Claim	A loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up to date.
PITI	Principal, Interest, Taxes, and Insurance - the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.
PMI	Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price.
Point	1% of the amount of the mortgage loan.
Pre-approval Letter	A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you are a serious buyer.

Pre-approve	Lender commits to lend to a potential borrower; commitment remains as long as the borrower still meets the qualification requirements at the time of purchase.
Predatory Lending	Abusive lending practices that include making a mortgage loan to an individual who does not have the income to repay it or repeatedly refinancing a loan, charging high points and fees each time and "packing" credit insurance on to a loan.
Pre-foreclosure sale	Allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure.
Premium	An amount paid on a regular schedule by a policyholder that maintains insurance coverage.
Prepayment	Payment of the mortgage loan before the scheduled due date; may be Subject to a prepayment penalty.
Pre-qualification letter	A letter from a mortgage lender that states that you are pre-qualified to buy a home but does not commit the lender to a particular mortgage amount.
Pre-qualify	A lender informally determines the maximum amount an individual is eligible to borrow.
Principal	The amount borrowed from a lender; doesn't include interest or additional fees.
R	
Radon	A radioactive gas found in some homes that, if occurring in strong enough concentrations, can cause health problems.
Rate Cap	The limit on the amount that the interest rate on an ARM can increase or decrease during any one adjustment period.
Ratified Sales Contract	A contract that shows both you and the seller of the house have agreed to your offer. This offer may include sales contingencies, such as obtaining a mortgage of a certain type and rate, getting an acceptable inspections, making repairs, closing by a certain date, and the like.
Real estate agent	An individual who is licensed to negotiate and arrange real estate sales; works for a real estate broker.

REALTOR	A real estate agent or broker who is a member of the NATIONAL ASSOCIATION OF REALTORS, and its local and state associations.
Refinancing	Paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate).
Rehabilitation mortgage	A mortgage that covers the costs of rehabilitating (repairing or Improving) a property; some rehabilitation mortgages - like the FHA's 203(k) - allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.
Replacement Cost	The cost to replace damaged personal property without a deduction for depreciation.
RESPA	Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships
S	
Securities	A financial form that shows the holder owns a share or shares of a company (stock) or has loaned money to a company or government organization (bond).
Settlement	Another name for closing.
Special Forbearance	A loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments.
Survey	A property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc.
Sweat equity	Using labor to build or improve a property as part of the down payment
T	
Title 1	An FHA-insured loan that allows a borrower to make non-luxury improvements (like renovations or repairs) to their home; Title I loans less than $7,500 don't require a property lien.

Title insurance	Insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers.
Title search	A check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.
Truth-in-Lending Act (TILA)	Federal law which requires disclosure of a truth in lending statement for consumer loans. The statement includes a summary of the total cost of credit such as the APR and other specifics of the loan.
Truth-in-Lending	A federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan initial period and then adjusts to another rate that lasts for the term of the loan.
U	
Underwriting	The process of analyzing a loan application to determine the amount of risk involved in making the loan. It includes a review of the potential borrower's credit history and a judgment of the property value.
Uniform Residential Loan Application	A standard mortgage application that your lender will ask you to complete. The form request your income, assets, liabilities and a description of the property you plan to buy, among other things.
V	
VA	Department of Veterans Affairs; a federal agency which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default.
W	
Warranties	Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge