Using the Services of a Mortgage Broker
February, 2007

Introduction

A home loan is a transaction in which you promise to repay money you have borrowed and also give the lender a mortgage on your home to secure repayment. In Oklahoma, your promise to repay ordinarily is in the form of a promissory note and the mortgage is ordinarily in the form of a deed of trust. You need to make certain that you understand the terms of the loan before you become obligated. Whether you obtain a loan through a mortgage broker, a financial institution or some other lender, you should ask questions about the loan process and paperwork so that you understand the form of the transaction and the terms of the loan before you agree to them.

The purpose of this brochure is to provide basic information about using the services of a **mortgage broker** which may assist you in making an informed decision when seeking a home loan.

Using the Services of a Mortgage Broker

A mortgage broker helps you obtain a home loan. A mortgage broker usually does not fund the loan, nor will you make your payment to a mortgage broker unless they fund and service the loan. A mortgage broker should be licensed by the Oklahoma Department of consumer Credit or be on our exempt list. Mortgage brokers make or arrange first mortgages and junior mortgages also known as second mortgages. A junior mortgage secures a loan which is secondary or junior to one or more other loans on the property. Some home loans arranged through brokers are very similar to a home loan you might obtain independently from a bank, savings and loan association (S&L), credit union, finance company, or other type of lender. Some brokers offer shorter loan terms and/or different repayment plans.

Prior to using the services of a mortgage broker ensure that you check to make sure they are properly licensed by checking with the Department of Consumer Credit at www.okdocc.state.ok.us or our in state toll free phone number 1-800-448-4904. You may also wish to check with the Better Business Bureau to see if the company is a member and if any complaints have been filed against the company.

The Role of the Mortgage Broker

The mortgage broker is usually an agent for the purpose of arranging the home loan transaction. This relationship imposes a legal duty on the broker to disclose to you the material (important) facts you need to know about the loan. The broker has a duty of fairness and honesty to both you and the lender. These legal duties can be important in resolving disputes which arise after the loan is made, but the best way to avoid problems and disputes is to ask questions and be sure you understand the terms of the loan and each of the loan documents before you sign.

When acting as an agent, the broker speaks for you in submitting your loan application to a lender. Make sure that you give the broker full and accurate information, and that any loan application or other document the broker prepares for your signature is accurate and complete before you sign it. Make sure you understand the terms of the loan before you agree to it.

Mortgage Broker Commissions and Lender Fees

Mortgage Broker commissions and lender fees are not usually set by law. Mortgage Brokers are paid either directly by you or by the lender who funds the loan or both. You may choose to pay the mortgage broker's commission with:

- Cash (out of pocket) at the time the loan closes or
- Proceeds from the loan (this will increase your loan balance) or
- A lender's rebate (also known as yield spread premium "YSP") or service release premium "SRP" (see definition of lender's rebate and service release premium below) the amount of the premiums, in almost all cases is determined by the Annual Percentage Rate the Mortgage Broker quoted you. As a rule, the higher the Annual Percentage Rate the Mortgage Broker can book the loan for, the higher his yield spread premiums will be.

Compare fees charged by several lenders and mortgage brokers. You may be able to do this with a few phone calls. Ask about the amount of the fees and costs to be paid by you in cash before the loan is funded, the amount of the fees and costs to be paid from the loan proceeds or lender rebates, and the amount of fees and costs to be financed. Oklahoma law requires the Mortgage Broker fee to be disclosed on line 808 of the Good Faith Estimate and Settlement Statement, which we will discuss later. The amounts of "YSP" or the "SRP" are disclosed in the 800 series numbers, usually on line 811. On the good Faith Estimate the "YSP or "SRP" may be disclosed as a percentage range. All fees payable to the Mortgage Broker must be identified as payable to the Mortgage Broker.

Definitions

Points - The term "points" customarily refers to the commission, or origination fee, by charged by the lender when the loan is made. Each point is 1% of the loan amount. On a $100,000 loan, 1 point is $1,000 and 10 points is a charge of $10,000 and these points will be disclosed on line 801 of the Good Faith Estimate and the Settlement Statement, which we will discuss later in detail. The amount of points charged is not usually set by law. You may wish to shop for a mortgage broker who will find a lender who charges fewer points. You may be able to negotiate for lower points. Asking about points before you choose a mortgage broker or lender may save you money. You should be aware, however, that a "no points" or "zero points" loan may have a higher interest rate than a loan for which points must be paid. Therefore, it is important to compare the points, costs and interest rates in order to decide which loan is best for you. And remember, there is no such thing as a "no cost loan." Points can also be paid by the borrower to obtain a lower interest rate loan. These are referred to as "**Discount Points**". Typically one **Discount point** will lower your note rate .25%. **Discount Points** are disclosed on line 802 of the Good Faith Estimate and Settlement Statement.

Rate Sheet - A term used to describe how lenders communicate (via computer or fax) the interest rates, terms and costs of loan products available to mortgage brokers. Interest rates can change several times a day. Each lender provides its approved mortgage brokers with the current rate sheet for its loan products.

Par Loan - The interest rate at which the borrower pays no discount points and the lender pays no rebate (known as YSP or SRP) to the broker for delivering the loan to the lender.

Yield Spread Premium (also known as a lender rebate) – The rate at which a mortgage broker is compensated for the difference between the interest rate on a par loan and the interest rate on an above par loan, which a broker can deliver to the lender. This is expressed in the number of points paid to a broker. A broker receives payment of the premium, the lender obtains a higher than par loan, and the borrower pays for the premium over the entire life of the loan. For example, if the interest rate on a par loan is 7% and the mortgage broker can deliver a 7.5% loan to the lender, the lender may be offering to pay the mortgage broker a rebate of 2 points or 2% of the loan value. For a $100,000 loan, the broker would be paid a $2,000 Yield Spread Premium by the lender and the borrower would have to pay a higher interest rate over the life of the loan. Always ask your broker if rebate pricing is involved on your loan; a broker **must** disclose any rebate they are to receive in connection with your loan to you. This fee must be disclosed on the "Good Faith Estimate" (GFE) on line 800 through 811 as it appears on the "Settlement Statement". We will discuss the GFE and Settlement statement later in this brochure.

Service Release Premium – This is another form of compensation that a lender may pay to a broker for delivering a loan. Each loan comes with "servicing rights", which are the rights to collect the mortgage payments. Servicing rights can be sold independently of the actual mortgage. Some lenders pay mortgage brokers a "Service Release Premium", expressed as points, when the mortgage broker delivers the lender a loan. Always ask your broker if a Service Release Premium is involved on your loan, a broker **must** disclose any Service Release Premium they are to receive in connection with your loan to you. Some Lenders offer Service Release Premiums to brokers for high volume and in some cases borrowers pay higher rates, because brokers place the loans where they make the most profit.

Loan Pre-Approval – Mortgage Brokers will obtain pre-approval for a loan based on preliminary information supplied by the borrowers. **THIS IS NOT A LOAN APPROVAL**. Loan Approval only takes place after all required information has been reviewed and approved by the lender's underwriter. Loan approvals may also contain conditions that the borrower must meet prior to funding of the loan.

Loan Lock – A request for the interest rate on your loan can either be locked or floating. If you choose to obtain a loan lock the mortgage broker will "lock-in" the agreed upon interest rate at the time you request the lock. This lock is for a given period of time. Always ask your broker for the length of the lock and if there is any lender charge for locking the interest rate of your loan. Always ask for a written lock-in agreement, signed by the mortgage broker, detailing the exact terms of the lock-in.

You may choose to float the interest rate on your loan. This means that the loan's interest rate will be set at the prevailing interest rate for your loan program on the day of closing.

Remember interest rates can change daily and sometimes more than once in a day. You need to talk with your broker to determine the best course of action for you.

Annual Percentage Rate (APR) - The annual percentage rate (APR) of interest includes both the simple interest rate and certain fees, commissions, costs, and expenses. By contrast, the simple interest rate, or note rate, does not include these costs and fees. If a broker or lender quotes an interest rate to you, be sure to ask if that rate is the simple rate or the APR. Use the APR to compare loans which have different simple interest rates, points and other loan charges. The loan with the higher APR may cost you more over the term of the loan.

What Other Fees Should I Ask About?

The mortgage broker, by law cannot charge **in advance** loan application processing fees. If the mortgage broker asks for payment **in advance** for any service other than bona fide third party provider fees, such as appraisal or credit inquiry, contact the Department of Consumer Credit. Closing costs may include charges for document preparation, escrow services, title insurance, notary services, and recording fees. You may also be charged for fire or homeowner's insurance coverage or optional credit life or disability insurance. A Mortgage Broker <u>shall not receive a fee or compensation of any kind unless a borrower actually obtains a loan on the terms agreed upon by the borrower and Mortgage Broker</u> except for third party fees actually paid by the Mortgage Broker, such as a credit report or appraisal fee.

You do not have to buy credit life or disability insurance. Credit life and disability insurance benefits make your mortgage payments if you die or become disabled. Many credit life and disability policies have limitations, called exclusions, which excuse the insurer from paying under a variety of circumstances. Make certain you understand the terms of the policy and what it excludes. You can also secure financial protection from disability or death through standard term life insurance or disability insurance. Before you buy credit life or disability insurance, compare the cost with the cost of a term life or disability policy.

An Overview Of The Loan Process

Selecting a mortgage broker or lender – As stated earlier, brokers usually act as your agent with the lender. You can also deal directly with some lenders, without using a mortgage broker. Whichever you choose, ensure that you have checked out the company. Try to use companies that people you know have used and can tell you the level of service provided. Rates should be competitive with other companies. Remember that if the deal sounds too good to be true, it probably is. Contact the Department of Consumer credit to verify the Lender or Broker is licensed to do business in Oklahoma.

The Loan Application – You will have to provide a completed loan application. Some brokers will come out to your home to take the application, you can fill one out yourself, or some brokers have Web sites that allow you to submit the application on-line. You may be asked to pay for a credit report and appraisal fee up front or pay the Appraiser directly. If a broker tells you the credit report and appraisal costs are not being charged to you, make sure to get it in writing. Also verify that you will not pay for these items at the close of escrow out of your loan proceeds or that the broker will or will not demand payment for the fees, if you do not close the loan.

The broker will also require that you submit the required documents that the lender requires in relationship to the loan program you are trying to obtain. Both the broker and lender will provide you with required disclosures regarding the terms of the loan. It is important that you review these disclosures and ensure that the terms meet with your approval. Oklahoma and Federal law requires the Lender or Mortgage Broker give you a Good Faith Estimate (GFE) of settlement service charges you will likely have to pay. If you do not get the Good Faith Estimate when you apply, the Lender or Mortgage Broker must mail or deliver it to you within the next three business days. Shown on page 5 is a copy of the Good Faith Estimate.

The information provided on page 5 reflects estimates of the charges which you are likely to incur at the settlement of your loan. The fees listed are estimates -- the actual charges may be more or less. Your transaction may not involve a fee for every item listed.

The numbers listed beside the estimates generally correspond to the numbered lines contained in the HUD - 1 or HUD - 1A settlement statement that you will be receiving at settlement. The HUD - 1 or HUD - 1A settlement statement will show you the actual cost for items paid at settlement.

Item	HUD - 1 or HUD - 1A	Amount or range
Loan origination fee	801	$XXXX
Loan discount fee	802	$XXXX
Appraisal fee	803	$XXXX
Credit report	804	$XXXX
Inspection fee	805	$XXXX
Mortgage broker fee	808	$XXXX
CLO access fee	[Use blank line in 800 Section]	$XXXX
Tax related service fee Yield Spread Premium	[Use blank line in 800 Section] {Use blank line in 800 Section}	$XXXX $XXXX
Interest for [X] days at $XXXX per day	901	$XXXX
Mortgage insurance premium	902	$XXXX
Hazard insurance premiums	903	$XXXX
Reserves	1000 - 1005	$XXXX
Settlement fee	1101	$XXXX
Abstract or title search	1102	$XXXX
Title examination	1103	$XXXX
Document preparation fee	1105	$XXXX
Attorney's fee	1107	$XXXX
Title insurance	1108	$XXXX
Recording fees	1201	$XXXX
City/County tax stamps	1202	$XXXX
State tax	1203	$XXXX
Survey	1301	$XXXX
Pest inspection	1302	$XXXX
[Other fees -- list here]		$XXXX

Applicant____

Date____

Authorized Official____

These estimates are provided pursuant to the Real Estate Settlement Procedures Act of 1974, as amended (RESPA). Additional information can be found in the HUD Special Information Booklet, which is to be provided to you by your mortgage broker or lender, if your application is to purchase residential real property and the Lender will take a first lien on the property.

Footnotes

\1\The name of the lender shall be placed at the top of the form. Additional information identifying the loan application and property may appear at the bottom of the form or on a separate page. Exception: If the disclosure is being made by a mortgage broker who is not an exclusive agent of the lender, the lender's name will not appear at the top of the form, but the following legend must appear:

This Good Faith Estimate is being provided by XXXXXXXX, a mortgage broker, and no lender has yet been obtained.

\2\Items for which there is estimated to be no charge to the borrower are not required to be listed. Any additional items for which there is estimated to be a charge to the borrower shall be listed if required on the HUD - 1.

Processing the Loan – This is the process where the broker obtains the required information and submits it to the lender's underwriter for loan approval. This is a critical stage in obtaining your loan. Ensure that you respond to all requests for information in a timely manner. This will increase your chances of getting the loan or learning why you don't qualify. This is also the time you may want to lock in an interest rate. Remember to keep in contact with the broker and to monitor the loan process, ensuring that the broker is meeting the agreed upon time frames.

Closing the Loan – This is the final stage of the loan process. **By law you can request the "Settlement Statement" one day before closing the loan**. Be certain to do this. The settlement statement itemizes the services provided to you and the fees charged to you. The closing can take place at a title company, escrow company, or the broker's office. The broker may use a signing service that will bring the documents to you for signing. No matter where the signing takes place, this is the time to ensure the loan terms and costs are what you asked for. Read all documents.

Do not let yourself be rushed. If you have questions, ask them and make sure you understand the answers. If the terms and conditions are not what were agreed upon, do not sign the loan documents. Request that the documents be redrawn stating the correct terms. Don't let yourself be pressured into agreeing to changes in the fees or terms. A legitimate Lender or Broker will have notified you of changes in the terms or fees far in advance of the loan closing date. The changing of terms or fees at closing or just before closing is a red flag and you should seek legal advice.

Shown on page 7 and 8 is a copy of the Settlement Statement:

A. Settlement Statement

U.S. Department of Housing and Urban Development

OMB Approval No. 2502-0265 (expires 9/30/2006)

B. Type of Loan

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

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

D. Name & Address of Borrower:	E. Name & Address of Seller:	F. Name & Address of Lender:

G. Property Location:	H. Settlement Agent:	
	Place of Settlement:	I. Settlement Date:

J. Summary of Borrower's Transaction		K. Summary of Seller's Transaction	
100. Gross Amount Due From Borrower		**400. Gross Amount Due To Seller**	
101. Contract sales price		401. Contract sales price	
102. Personal property		402. Personal property	
103. Settlement charges to borrower (line 1400)		403.	
104.		404.	
105.		405.	
Adjustments for items paid by seller in advance		**Adjustments for items paid by seller in advance**	
106. City/town taxes to		406. City/town taxes to	
107. County taxes to		407. County taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due From Borrower		**420. Gross Amount Due To Seller**	
200. Amounts Paid By Or In Behalf Of Borrower		**500. Reductions In Amount Due To Seller**	
201. Deposit or earnest money		501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to seller (line 1400)	
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
Adjustments for items unpaid by seller		**Adjustments for items unpaid by seller**	
210. City/town taxes to		510. City/town taxes to	
211. County taxes to		511. County taxes to	
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid By/For Borrower		**520. Total Reduction Amount Due Seller**	
300. Cash At Settlement From/To Borrower		**600. Cash At Settlement To/From Seller**	
301. Gross Amount due from borrower (line 120)		601. Gross amount due to seller (line 420)	
302. Less amounts paid by/for borrower (line 220)	( )	602. Less reductions in amt. due seller (line 520)	( )
303. Cash ☐ From ☐ To Borrower		**603. Cash ☐ To ☐ From Seller**	

Section 5 of the Real Estate Settlement Procedures Act (RESPA) requires the following: • HUD must develop a Special Information Booklet to help persons borrowing money to finance the purchase of residential real estate to better understand the nature and costs of real estate settlement services; • Each lender must provide the booklet to all applicants from whom it receives or for whom it prepares a written application to borrow money to finance the purchase of residential real estate; • Lenders must prepare and distribute with the Booklet a Good Faith Estimate of the settlement costs that the borrower is likely to incur in connection with the settlement. These disclosures are manadatory.

Section 4(a) of RESPA mandates that HUD develop and prescribe this standard form to be used at the time of loan settlement to provide full disclosure of all charges imposed upon the borrower and seller. These are third party disclosures that are designed to provide the borrower with pertinent information during the settlement process in order to be a better shopper.

The Public Reporting Burden for this collection of information is estimated to average one hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

The information requested does not lend itself to confidentiality.

L. Settlement Charges

	Paid From Borrowers Funds at Settlement	Paid From Seller's Funds at Settlement
700. Total Sales/Broker's Commission based on price $ @ % =		
Division of Commission (line 700) as follows:		
701. $ to		
702. $ to		
703. Commission paid at Settlement		
704.		
800. Items Payable In Connection With Loan		
801. Loan Origination Fee %		
802. Loan Discount %		
803. Appraisal Fee to		
804. Credit Report to		
805. Lender's Inspection Fee		
806. Mortgage Insurance Application Fee to		
807. Assumption Fee		
808. Mortgage Broker Fee to		
809.		
810.		
811. Yield Spread Premium to		
900. Items Required By Lender To Be Paid In Advance		
901. Interest from to @$ /day		
902. Mortgage Insurance Premium for months to		
903. Hazard Insurance Premium for years to		
904. years to		
905.		
1000. Reserves Deposited With Lender		
1001. Hazard insurance months@$ per month		
1002. Mortgage insurance months@$ per month		
1003. City property taxes months@$ per month		
1004. County property taxes months@$ per month		
1005. Annual assessments months@$ per month		
1006. months@$ per month		
1007. months@$ per month		
1008. months@$ per month		
1100. Title Charges		
1101. Settlement or closing fee to		
1102. Abstract or title search to		
1103. Title examination to		
1104. Title insurance binder to		
1105. Document preparation to		
1106. Notary fees to		
1107. Attorney's fees to		
(includes above items numbers:)		
1108. Title insurance to		
(includes above items numbers:)		
1109. Lender's coverage $		
1110. Owner's coverage $		
1111.		
1112.		
1113.		
1200. Government Recording and Transfer Charges		
1201. Recording fees: Deed $; Mortgage $; Releases $		
1202. City/county tax/stamps: Deed $; Mortgage $		
1203. State tax/stamps: Deed $; Mortgage $		
1204.		
1205.		
1300. Additional Settlement Charges		
1301. Survey to		
1302. Pest inspection to		
1303.		
1304.		
1305.		
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		

Debt Consolidation: Borrowing Money on My Home to Pay My Bills

Be careful about using a home loan to consolidate debts into a single monthly payment. A home loan is different from other consumer debts. If you can't pay most consumer debts, you might receive a bad credit rating, be sued, or even be forced into bankruptcy. But if you can't pay your home loan, you could lose your home.

Many consumer debts such as bills for credit cards or medical services are unsecured. Other consumer debts like car payments or furniture payments may be secured by an interest in the goods but not by an interest in your home. If you can't repay consumer debts, the creditor may be able to take back the goods and sue you for the amount of the debt not repaid by the resale of the goods. But on a consumer debt, the creditor cannot simply foreclose on your home.

If you pay off consumer debts like car, medical or credit card bills with a home loan, the new debt is secured by your home. This creates the risk that you could lose your home if you can't make the payments. Do the math before you decide to consolidate your debts. Many of your debts will be retired in a few years as opposed to a 20 or 30 year mortgage loan and the amount of additional interest should be taken under consideration.

CONSUMER CHECKLIST	
Questions to Ask About Debt Consolidation	
✓	Are your debts unsecured (such as medical bills and credit card bills) or secured only by an interest in personal property (such as a car or furniture payments)?
✓	Can you work out a payment schedule with your creditors to repay existing debts?
✓	How will you pay off a new home loan if you can't pay your current bills?

Paying Off a Balloon Payment Loan

A balloon payment loan is not fully paid off through the monthly payments. A loan without a balloon payment is repaid a little bit each month. With these loans, each month's payment applies to both interest and principal. They are called fully amortized loans because you pay off (amortize) the loan with your monthly payments. By contrast, an interest-only loan or a partially amortizing loan will include one or more balloon payments: i.e., payments that are twice or more the size of the regular payment.

Partially amortizing and interest-only loans have lower monthly payments than fully amortizing loans for the same amount. In an interest-only loan, the monthly payments do not pay any of the loan principal. The payments cover only interest. The unpaid principal must be paid by one or more balloon payments.

For example, if you obtain a $15,000 interest-only loan at 15% interest for 5 years, you must make monthly interest payments of $187.50. At the end of the 5 year term, however, you would still owe the entire $15,000 principal and it would be due in one balloon payment. (If you had made payments of $356.85 instead, the loan would have been amortized/paid off by the end of the 5 year loan term. If your loan was for 10 years, monthly payments of $242 per month would fully amortize it.) A balloon payment results when your monthly payments pay only interest (a non-amortizing loan) or when they pay only part of your loan principal (a partially amortizing loan).

An example of each could look like this:

$15,000 Loan 15% – 5 Yrs	Monthly Payment	Balloon *(Due After 5 Yrs)*
Fully Amortized	$356.85	—0—
Partially Amortized	$280.00	$7,000.00
Interest Only	$187.50	$15,000.00

With interest-only and partially amortizing loans, if you do not have the financial means to repay the balance of the loan principal as a balloon payment at the end of the loan term, your choices could include:

- selling your home to make the balloon payment;
- taking out another loan — typically incurring more fees and costs — to pay off the balloon payment; or
- losing your home to foreclosure if you fail to make the balloon payment.

If you refinance the loan to pay the balloon payment, you typically must pay new loan fees and closing costs. This could increase your debt. If the debt becomes too large in comparison with the amount of equity in your home, you may not be able to further refinance. Then, if you are not able to satisfy the debt, you could lose your home in foreclosure or be forced to sell it to pay off the loan.

Refinancing My Existing Fully Amortizing Mortgage

Sometimes borrowers replace an existing mortgage with a new, larger first mortgage. Some things to consider in deciding whether to refinance an existing mortgage are:

- refinancing may replace a fully amortizing loan with a loan requiring a balloon payment.
- refinancing may shorten the amount of time you have to repay by replacing a long term loan with a short term loan.
- a new junior mortgage in a smaller amount may cost less, in points and fees, than refinancing the existing first mortgage.

- If you're refinancing an existing mortgage to obtain a lower rate, consider the costs involved and whether to roll the costs into the new loan or pay the costs out of pocket. If your financial situation has improved, now is the time to consider a shorter term, although your payment may be larger the savings in interest will be worth it. For example: if you currently have a 30 year $100,000.00 loan at 7.5115% with payments of $700 and have paid 60 payments and you refinanced the remaining balance at 6.5% for 20 years, your new payment would be $705.52 if you paid the costs to refinance out of pocket. The results would be paying off your home 5 years earlier and saving $40,675.00 in interest.

CONSUMER CHECKLIST	
Interest-Only and Partially Amortizing Loans	
✓	How much will you owe (balloon payment) after you make all the monthly payments?
✓	How much would the monthly payments be to fully amortize the loan and avoid any balloon payment?
✓	Could you afford the monthly payments on a fully amortizing loan if you borrowed less money or obtained a longer loan term?
✓	Where will you obtain the money to make the balloon payment?
✓	Remember that you risk losing your home if you can't pay the balloon payment.

How Do I Decide About the Length of Loan Term?

The term of the loan is the number of years you have to repay it. First mortgages usually have terms of 15, 30, or even 40 years. Junior mortgages typically have terms of 1, 3, 5, or perhaps 10 or more years. With a fully amortized loan, the longer the loan's term, the lower your monthly payments. With an interest-only or partially amortizing loan, a longer loan term means you have more time before you have to pay the balloon payment. In any event, the longer the loan term the more total interest you will pay, assuming you do not prepay the principal of the loan.

How Do I Choose a Mortgage Broker and a Loan?

Call lenders and mortgage brokers and ask about interest rates and fees for the size loan you need. Be sure to ask:

- What types of loans are available?
- What is the approximate amount you will have to borrow to receive the amount of cash you want? (That is, what amount of fees will be financed and deducted from your loan proceeds?)
- Does the lender or mortgage broker offer loans in the dollar amount you need?
- How much is the lender's fee or broker's commission on this size loan?

- What other fees or costs will you be charged and what is the estimated amount of each?
- Will you have to pay any fees if the loan is denied?
- Will you have to pay any fees if you apply, but then change your mind?
- What is the amount of the monthly payments, and the amount of any balloon payment?
- Will the loan be fully amortized/paid off by the regular monthly payments?
- What is the length of the repayment period/term of the loan? (The more time you have to repay, the lower your payments will be on a fully amortizing loan.)
- What is the simple interest rate?

- Is the interest rate fixed or does it vary over the term of the loan?
- What is the Annual Percentage Rate?

On an adjustable rate mortgage (ARM), the interest rate — and your monthly payment — may increase with an increase in the index used in your mortgage. In an ARM, the current interest rate is calculated by adding a fixed margin (such as 2%) to an index such as the Cost of Funds Index published by the Federal Home Loan Bank Board. INDEX RATE + MARGIN = MORTGAGE RATE.

For adjustable rate loans, ask the lender or broker:

- How long is the initial interest rate guaranteed?
- How often can the interest rate change?
- What is the largest monthly payment you could face?
- How often can the payments change?
- Can the amount you owe increase through negative amortization? (This can happen if your monthly payment is less than monthly interest costs.)
- What is the formula that will be used to set the rate?
- What would the rate be today if it were set by that formula?
- What are the caps on how high/low the interest rate can go?
- Is there a cap on how high or low a payment can be adjusted when the interest rate adjusts?

A good way to determine how much the fees and costs will be on a loan is to ask each lender or broker two questions:

1) "Approximately how much do I have to pay in cash before the loan is funded?" and

2) "What is the approximate amount of money I will have to borrow to end up with a certain amount of cash?" By comparing the answers you can find out how much you would have to borrow from each source to end up with the same amount of cash paid to you.

What Do I Need to Know About the Loan Application?

You will usually be asked to fill out a loan application describing your income, assets, debts and expenses, and the real property which is to secure the loan. Before you sign the application, make sure that it truthfully states your income, assets, debts and expenses. Never sign a blank application. Do not stretch the truth on your loan application. Don't exaggerate your income or understate your debts. The lender is entitled to know your true financial condition. Be certain to recheck the final loan application for accuracy at closing before signing it.

You may be asked to provide documents to the mortgage broker to verify your employment and bank accounts. The sooner you comply with these requests, the sooner your loan application can be processed.

Consumer Checklist: The Loan Application

- Accurately report your income, assets and debts.
- Never sign a blank application.
- Ask for a copy of your signed application.
- To avoid delays, promptly provide the information requested by the mortgage broker.
- Ask approximately how long it will take to process the application and obtain the loan you are requesting.

Get It In Writing

Do not be afraid to ask the mortgage broker or lender to show you where the loan papers describe any particular features of the loan which have been promised to you. If the terms you have been promised are not there, ask the mortgage broker or lender to put them in writing. Promises made only orally may not be enforceable.

Real Estate Settlement Procedures Act (RESPA)

The Real Estate Settlement Procedures Act (RESPA) is a federal law administered by the U.S. Department of Housing and Urban Development (HUD). RESPA applies to Oklahoma loans and federally related loans and requires, among other things, that mortgage brokers provide detailed information on settlement costs so that buyers and borrowers can shop around for settlement services. Mortgage brokers and lenders must provide a good faith estimate of costs the borrower is likely to incur at close of escrow. The broker must present this estimate not later than 3 business days after receipt of a written loan application.

Your Rights Under the Federal Truth-in-Lending Act

The Federal Truth-in-Lending Act (TILA) applies if the broker makes the loan with its own funds or arranges the loan for a lender who makes five or more home loans per year. If the TILA applies, the lender must provide you a disclosure before you become obligated which tells you:

- ✓ the identity of the creditor;
- ✓ the amount financed;
- ✓ that you have a right to an itemization of the amount financed;
- ✓ the dollar amount of the finance charge;
- ✓ the finance charge expressed as an annual percentage rate (APR);
- ✓ the number, amount and periods of payments;
- ✓ the total of all payments;
- ✓ any late payment charge; and
- ✓ whether or not there is a charge upon prepayment of the loan principal.

The disclosure statement must also identify the property which is to secure the loan and should tell you whether the terms of the loan permit assumption of the loan by someone buying the property from you.

If the TILA applies, you may have a right to rescind (cancel) the loan within three days after certain events, including the consummation of the loan transaction. When you do not receive proper disclosures about the loan, the right to rescind can last as long as three years from the time you obtain the loan. Any request to rescind the loan should be made in writing.

The TILA right of rescission does not apply to all loans arranged by mortgage brokers, so do not rely on the possibility of later rescission as a substitute for careful study of the loan before you agree to it.

The TILA was amended in 1994 with respect to certain loans, <u>other than purchase money loans</u> (which means loans to buy or build a home), secured by the borrower's principal dwelling. In the case of "high rate/high fee" loan transactions, also known as "Section 32" loans or "Subsection 10" in Oklahoma, the TILA now places some additional restrictions on creditors, requires more disclosures, and gives borrowers cancellation rights. The amendment defines a creditor as someone who, in any 12-month period, originates more than one high rate/high fee loan. Also, <u>any</u> such loan arranged by a mortgage broker is subject to the new requirements.

A high rate loan is one in which the APR exceeds by 8 percentage points for first-lien loans, or by more than 10 percentage points for subordinate-lien loans, the yield on Treasury Securities having a similar term. A high fee loan is one in which the total points and fees exceed the greater of 8% of the loan amount or, as of 1-1-2007, $547.00 (adjusted annually on January 1 based on the change in the Consumer Price Index).

The Loan Documents: What Do These Papers Mean?

The mortgage broker should explain the loan to you, but you can also help avoid misunderstanding by reading the documents and asking questions. Don't guess at the meaning of the loan papers. Ask the mortgage broker to explain them.

CONSUMER CHECKLIST	
Understanding the Loan Documents	
✓	Study the loan documents and ask questions to help you understand their meaning BEFORE you sign.
✓	Ask the mortgage broker or lender to put into writing the terms agreed to.
✓	Read all the loan documents carefully before you sign.
✓	Before you sign, make certain all the loan terms agreed on are included.
✓	Obtain and keep a copy of everything you sign.

CONSUMER CHECKLIST	
Signing The Loan Papers	
✓	Don't be rushed or intimidated.
✓	Read each document before you sign any part of it. Be certain to review the final loan application (form 1003) for accuracy, because you may be held criminally libel even if changes were made without your knowledge.
✓	Don't sign any documents if there are spaces or boxes concerning the terms of the loan which are left blank.
✓	Check that the promissory note lists the interest rate, length or "term" of the loan, and other terms that were promised or represented to you. If your loan was not to have a prepayment penalty or was not an adjustable rate mortgage ("ARM"), be certain there is not a provision for one.

CONSUMER CHECKLIST IN THE EVENT OF FORECLOSURE	
Foreclosure	
✓	Avoid the risk of foreclosure by fully understanding the loan before you accept it. Make sure you will be able to make the monthly payments and any "balloon" payment(s).
✓	If you must miss a payment because of a special circumstance like a temporary disability or temporary unemployment, contact the lender or servicing agent before you miss the payment and suggest a plan for making up the payment(s) to be missed. Are you able to put an extra $50 per month on future payments?
✓	If you receive a notice of default, be sure the lender has accurately stated the amount you owe. If you have a plan to repay the missed payment(s), contact the lender promptly.
✓	If you are unable to make your payments or are in default and can't cure the default, consider selling the home before you lose it to foreclosure.
✓	Be cautious with anyone who contacts you claiming they can help you avoid the foreclosure without repaying the money you owe. If you have an FHA Insured loan visit the US. Department of Housing and Urban Development web-site at www.hud.gov/foreclosure/

Mortgage Insurance: Notice to Borrower

The law requires that if private mortgage insurance (PMI) is a condition of a loan the lender must notify the borrower whether the borrower has the right to cancel the PMI and, if so, what conditions must be met in order to cancel.

Servicing: Making Your Monthly Payments

It is very important to make all your payments and to make them on time. Your promissory note may include a provision requiring you to pay a late charge for each late payment. The person who collects your loan payments is often referred to as the authorized servicer. Sometimes this is the mortgage broker, but in most cases it is not.

NOTE: The law requires that if the servicing responsibility for a loan is to be (or has been) transferred, both the current and new servicer must notify the borrower of the change and its effective date.

What Should I Do About a Dispute With the Authorized Servicer?

If you have a disagreement with the authorized servicer about your loan, write a letter to the servicer and keep a copy. State what the problem is and what you wish the servicer to do about it. Be specific. If your payment wasn't credited, give the account number, amount, date, and number of the check. Do not send your original documents such as canceled checks. Keep all the originals and send copies with your letter. Confirm in writing any telephone conversations with the servicer. If you don't receive a satisfactory response, Section 6 of RESPA requires the servicer to acknowledge your request within 20 business days and must try to resolve the problem within 60 business days. If not you may have certain rights, such as the right to file a civil lawsuit against the servicer.

Can I Find Out Why Credit Was Denied?

Lenders may not base a decision to deny you credit on your race, color, religion, national origin, ancestry, sex, marital status, or the fact that some of your income comes from a public assistance program. The lender is required to inform you in writing of an adverse action (denial) taken on your application. If you make a timely written request, the lender must also tell you in writing why credit was denied.

Information and Complaints

Federal Trade Commission (FTC) – The FTC publishes free pamphlets on home mortgages.

Oklahoma Department of Consumer Credit (DOCC) – The DOCC can tell you whether a mortgage broker has a current license, how long the broker has been licensed, and whether the DOCC has ever taken any formal disciplinary action against the broker. The DOCC Web Site at **www.okdocc.state.ok.us** the phone number is 405-521-3653.

Private attorneys – The county bar association in many counties gives a referral to lawyers who have asked to be listed with the bar referral service.

Legal Aid – If you are on a fixed income or have a low income, you may qualify for a lawyer through the county Legal Aid Office.

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