

Applying for a loan to purchase or refinance a home in Oregon



*What you should know
before you sign
on the dotted line ...*

Oregon Division of Finance and Corporate Securities

Our mission

To encourage a wide range of financial services, products, and information for Oregonians, delivered in a safe, sound, equitable, and fraud-free manner.

The information contained in this brochure is for informational purposes only and does not constitute legal or professional advice. We advise you to seek an attorney's counseling for your particular circumstances. This brochure does not replace the benefit of homeownership-education classes or credit counseling.

Always shop around

If you're planning to buy a home or refinance a current mortgage*, always shop around for the best loan that fits your situation. First-time homebuyers should find out from lenders what loan and down-payment assistance programs they offer first-time homebuyers.

As you shop for a home loan, remember that the interest rates on loans can change daily or even more often. Don't decide against a lender you were interested in working with if you find another lender on another day has lower interest rates — there may have been a shift in the market that affected all lenders, which means the rates you were quoted earlier also may have changed.



Search the Sunday papers in your area or the Internet to become familiar with current interest rates. Once you've selected a lender and a loan program, talk to your lender about "locking" or securing your interest rate.

* In Oregon, a home loan can also be secured with a "deed of trust."

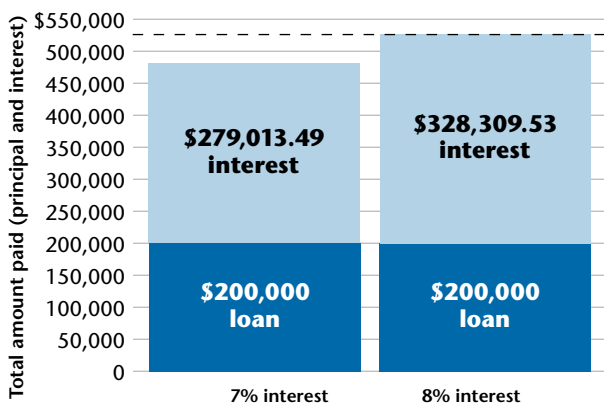
It's better to have no credit history than a bad one, because these days it's not always necessary to have established credit to get a mortgage loan. Some lenders may approve a loan for you based on how well you meet your other financial obligations, such as rent and utility bills. While there have been significant changes in the lending programs, you may find a lender willing to offer a mortgage loan. You should always be careful in accepting or responding to "easy-to-qualify" loan programs.

Pay special attention to interest rates and fees

The effect of interest rates on your loan may not be obvious at the beginning, but your interest rate determines how much you will pay for your home over the long run. The higher the interest rate, the larger the total you will pay. Here is an example of how interest rates affect a mortgage loan:

Loan amount: \$200,000
Rate: **7% fixed**
Term: 30 years
Principal and interest monthly payment: **\$1,330.61**
Total interest paid after 30 years: **\$279,013.49**

Loan amount: \$200,000
Rate: **8% fixed**
Term: 30 years
Principal and interest monthly payment: **\$1,467.53**
Total interest paid after 30 years: **\$328,309.53**



In the example, the difference in monthly payments is \$136.92. But compare the total interest paid on your loan at the higher interest rate after 30 years: almost \$50,000! Don't forget to ask your lender if you can make additional payments that will reduce the principal loan balance. Ask if you can do this without having to pay penalties or additional fees or enter into a contract with the lender or a third party.

Interest rates and the related fees charged are clearly two of the most important considerations when you are shopping for a loan. It is also very important that you can repay the loan and that the payments are realistic for your financial situation. For example, if your rent is \$750 a month and the total monthly payment for the home you want to buy is \$1,500, ask yourself: What would I need to do to come up with an additional \$750 a month?

Another thing to think about: If you're basing your ability to repay a home loan on a combined income (your income and your spouse's, for example), can you still make the monthly payments if one income is lost due to illness, loss of a job, or divorce? This is particularly important if you choose an adjustable interest rate or a loan product where your payments are not fixed for the length of the loan. You should also ask for how many

years your interest rate is fixed, if you are told you will have a fixed interest rate. A new law requires that you should receive a disclosure containing the loan terms at least seven days prior to the closing date. If the terms of the loan changes, you should receive new disclosures no later than three days prior to closing, including the maximum possible loan payments. This is particularly important on loans with adjustable rate mortgages.

**Documents
your lender
should give you,
and what you
should look for
in them**

Lenders are required to provide documents that give you a clear picture about the financing of a home. You can choose a lender and apply for a mortgage loan in person, over the

telephone, or on the Internet. Once you have submitted a formal application, your lender is required by law to give you a “Good Faith Estimate” of charges, a “Truth-in-Lending” disclosure, and a HUD (Housing and Urban Development) information booklet about charges *within three business days*. There will be additional documents and disclosures if you choose a variable interest rate (ARM). It is important that you keep copies of these documents so you can compare them to the final settlement documents. You have the right to obtain a copy of the “preliminary settlement statement,” also known as HUD-1, at least 24 hours before you sign your documents at closing. Having this document in advance allows you to review it and ask your lender for clarification, if necessary, about the charges you are expected to pay. To obtain a copy of the HUD-1, ask the escrow officer or the person who contacts you to set up an appointment to sign the final documents.

Good Faith Estimate (GFE) — This document details the costs or fees for your loan. It is

divided into sections that are similar to the sections in the settlement statement, or HUD-1:

- ▶ **Section 800** (loan costs). These include “points” (one point is 1 percent of the amount you are borrowing), appraisal, title search, survey, credit checks, underwriting fees, documentation, broker fees, loan processing fees, and any other fees in connection with your loan.
- ▶ **Section 900** (items that must be paid in advance). Also known as “pre-pays” or reserves, these include fire or hazard insurance, private mortgage-insurance premiums, and interest costs.
- ▶ **Section 1000** (reserves deposited with the lender). These include taxes, hazard insurance, mortgage insurance, and, if applicable, flood insurance and homeowners-association fees.
- ▶ **Section 1100** (title charges). These include title insurance, attorney’s fees, notary fees, and title-document preparation fees.
- ▶ **Section 1200** (government recording and transfer charges). These include tax stamps and transfer and assignment fees for recording the trust deed with the county.
- ▶ **Section 1300** (additional settlement fees). These can include pest inspections, additional payments to contractors, and surveys.

The GFE also should disclose the date on which it was prepared; your interest rate; the amount of your total monthly payment principal and interest, taxes, and required insurance (PITI); your homeowners-association monthly fees, if any; and the estimated cost to close your loan. We strongly recommend that you ask for a copy of the “*commitment letter*” — also known as the credit-approval letter — when your lender tells you that your loan has been officially pre-approved. This is a useful document that shows the terms of your loan and any further conditions with which you must comply.

Truth-in-Lending disclosure (TIL) — This is another document you should receive within three business days of submitting a loan application to the lender. These are some of the features you will find in a TIL:

- ▶ **Annual percentage rate (APR).** The APR is an annualized calculation of the cost of getting the loan in addition to your quoted interest rate, but it does not affect your monthly mortgage payments. Because the two are added together, you will notice that the APR is higher than the interest rate that you and your lender agreed on. This allows you to compare loan quotes from various lenders. The Truth in Lending law also requires mortgage companies to disclose the APR every time they advertise interest rates.
- ▶ **The cost of the interest on the loan** (finance charge), expressed in dollar amount.
- ▶ **The amount of the credit provided to you.**
- ▶ **The total amount of payments.** This shows how much you will pay if you complete the term of the loan without making additional payments on the principal.
- ▶ **The number and amount of principal and interest monthly payments.**

The TIL should show other important conditions of your loan, including the following:

- ▶ **Prepayment penalties.** Some loans have penalties if you pay them off before the end of the agreed-upon term.
- ▶ **Whether your interest rate is fixed or adjustable.**

- ▶ **What kind of insurance your lender requires.**
- ▶ **If there are fees for late payment.** Your TIL document should tell you if there are fees for paying late and how much those fees are (they may be a percentage of your monthly payment).
- ▶ **Whether your loan is assumable.** If your loan is assumable, the person who purchases the property from you may assume the remainder of the loan according to the terms you and your lender originally agreed on.

The types of insurance you are expected to have

Depending on your loan amount in relation to the value of the house, your lender may require you to have certain

types of insurance. Some of these will be included in your monthly payments. Let's take a look at some of these:

- ▶ **Mortgage insurance** — (Required, depending on the loan program) Mortgage insurance is required when lenders are loaning you more than 80 percent of the value of the house. Contrary to what many believe, this insurance *does not* cover the homeowner who cannot make monthly payments; it's intended to help the lender deal with foreclosure expenses.
- ▶ **Hazard or fire insurance** — (Required) This insures the house against losses from fire or other hazards. (Discuss in advance with your insurance agent what your policy covers.)

- ▶ **Flood insurance** — (Required if your house is in a flood area) Your lender will tell you if your house is in a floodplain. Since there are areas in Oregon where flooding occurs, it may be a good idea to ask other homeowners in your future neighborhood about the risks of flooding.
- ▶ **Title insurance** — (Required) This is a one-time fee paid to the title company to verify that the house you want to buy is legally available for sale — that is, there are no claims to the property or disputes about who owns it.
- ▶ **Credit or life insurance** — (Not required) Some lenders offer to sell you this insurance, which will cover payments or the balance of your home loan should you become unable to repay the loan. Be cautious and verify that the insurance premium is not required to be paid in a lump sum or included in your loan and make sure that buying such insurance does not drive the cost of your payments beyond your ability to repay the loan.

The difference between sub-prime and predatory lenders

Sub-prime loans

Most lenders in Oregon do business according to the law and strive to maintain their reputations. They know that satisfied customers will refer more business to them. These lenders may make sub-prime loans to borrowers who, for example, don't have a good credit history. Because such loans are perceived to be riskier for the lender, the borrower will pay more in interest rates or advance fees. If you choose to get a sub-prime loan, make sure that your payments are realistic for your financial situation.

Sub-prime loans often include certain conditions that you should review carefully and understand completely *before you sign the binding documents*.

A few examples of these clauses are:

- ▶ **Balloon payments** — While balloon payments are common, they can become predatory when lenders charge excessive closing costs, then require the loan to be paid off in two to five years. Experienced lenders should be able to predict when a homebuyer will not be able to make the balloon payments. Some lenders will give you an extension if you cannot refinance your loan when the balloon payment is coming due, but the terms may be worse than those of the original loan.
- ▶ **Negative amortization** — There are loans in which your monthly payments are not applied to the loan principal but to the interest only. You cannot repay your loan and own your house unless you pay the principal, so we recommend you not accept an interest-only loan-payment plan unless it fits your financial situation and future plans. Similarly, a “payment-option” loan, which allows you to make partial payments of the interest due for a set period of time, eventually will require you to make the total monthly payments, including the principal. The unpaid part of the interest will be added to your principal.
- ▶ **Prepayment penalties** — In this case, the terms of your loan require you to pay a penalty if you pay it off earlier than agreed, which includes refinancing.
- ▶ **Mandatory arbitration** — Some lenders require you to sign a document as part of the loan transaction that obligates you to enter into arbitration before taking other legal steps if you come to believe that your loan was intended to defraud you.

Predatory loans

Unfortunately, there are lenders who would not hesitate to take advantage of people who are uninformed or unaware of the risks and those in financial distress. When you compare loans or see an appealing advertisement, remember that *if it sounds too good to be true, it probably is*.

Predatory loans often are characterized by unjustifiably high fees or interest rates and may even be intended to cause homebuyers and homeowners to lose their homes when they cannot make the payments. While Oregon does not have an “anti-predatory lending law,” the Oregon Mortgage Law prohibits *fraud and deceit* with respect to mortgage bankers or brokers and prohibits loan originators from engaging in dishonest, fraudulent, or illegal practices. Unfair and unethical practices also are prohibited.

Here are few examples of deceptive and fraudulent practices:

- ▶ **“Bait and switch”** — In this practice, there are hidden fees or the terms and conditions are not disclosed to the borrower at the beginning. When the documents are ready to be signed, the interest rates and fees are different – often unnecessarily higher – than those quoted at the beginning.
- ▶ **“Flipping”** — Lenders will offer to refinance a home numerous times, gradually reducing the equity of the home. Sometimes the payments are deceptively lower than the current mortgage payments. In other cases, lenders will sell homes at unrealistic, inflated prices. The house is usually sold in a short period of time to an unsuspecting buyer.

- ▶ **“Foreclosure scams”** — Because the information about your property is public, predators can find out if you are facing foreclosure and offer to “save” your house. Unsuspecting homeowners facing foreclosure have responded to such offers and ended up giving up the rights to their properties and losing their homes. These foreclosure scams are a growing problem. Be extremely cautious of offers to help you get out of foreclosure. Before accepting any offers, have an attorney or reputable nonprofit housing counselor review the documents.

We also recommended that if you foresee financial difficulties, **contact your lender immediately**. You may be able to negotiate a payment plan, especially if you are facing situations beyond your control.

Please see our publication *“Foreclosure, You can avoid it”* for additional information about foreclosure scams or visit <http://www.dfcs.oregon.gov/ml/foreclosure.html>.

Frequently asked questions

Q. What about “credit doctors,” or lenders who say they can help me get the loan, even with credit problems?

A. The only way to correct credit problems is with time and making the right decisions. Be careful of those offers that promise to “eliminate” or “erase” accurate credit problems in an unrealistic period of time.

Submitting fraudulent information to get a home loan is a federal offense. When you sign the mortgage loan application, you are certifying that all the information you’ve submitted is correct. Even if you submit incorrect information with your lender’s consent or knowledge, you are responsible. The repercussions can be devastating. You may be

successful in closing your loan, but you could lose your home and be charged penalties if it is determined later that the information you submitted was false.

Q. How can I be sure the information on my credit records is correct?

A. You may have incorrect information on your credit records without even knowing it, which can affect the type of mortgage you qualify for. Victims of identity theft are particularly at risk of having incorrect, damaging information on their credit records.

The Fair and Accurate Transaction Act, a new law intended to protect consumers from identity theft, allows consumers to obtain a free copy of their credit records from each of the credit bureaus at least once a year. You can obtain your free copy by visiting *www.annualcreditreport.com*. This is the only Web site established for this purpose. You also can call 877-322-8228, toll-free, or complete the form on the Web site and mail it to:

**Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281**

This option does not provide and does not affect consumers' credit scores.

Reviewing your credit records and, if necessary, correcting any inaccurate information prior to applying for a mortgage loan will better prepare you to discuss the terms of your loan with your lender.

Q. What should I do if I'm not sure about the loan that I've been offered? How can I back out of the deal?

A. First, the law requires all lending institutions without exception to be licensed to engage in business. Find out if your lender is licensed by contacting the Division of Finance and

Corporate Securities (DFCS) in Salem (see page 16). Some major banks are federally licensed, while others should be licensed with DFCS, which is part of Oregon's Department of Consumer and Business Services.

Second, consult with a reputable nonprofit housing or consumer protection agency. You also may want to get a second opinion from a family member or friend who has experience with finances or has previously purchased a home.

Should you decide to back out of a loan for a house you're in the process of buying, you must do so as early as possible and before signing the prepared loan documents at closing. Ask the title company handling your transaction to send you a copy of the preliminary settlement document known as a HUD-1 as soon as possible so that you will have an opportunity to verify the charges that you are expected to pay at closing.

If you are refinancing or obtaining a home equity loan for the property you live in, you have three business days after signing the loan documents to change your mind; however, you must notify the lender *in writing* that you do not want the loan. These three days, which include Saturdays but not Sundays or legal holidays, are also known as the "rescission period."

Q. Who regulates my financial institution?

A. As noted earlier, the first thing you need to know is whether your lender is licensed to make loans. Loan originators working under state-licensed companies also should be registered with the Oregon Division of Finance and Corporate Securities. You need to know if the institution is regulated at the federal or state level.

There is a list of state and federal agencies where you can obtain additional information about your institution or file a complaint starting on page 16.

Q. What happens if I file a complaint with the Division of Finance & Corporate Securities (DFCS)?

A. Consumer complaints often result from situations that could have been resolved if there was better communication between the parties involved in the loan transaction. Before you file a complaint with DFCS, try to resolve the issue with your loan representative or the responsible person for the company. It is important that you do this as soon as you foresee or find a problem with your mortgage loan and preferably in writing. That way there is a paper trail if later you will need some kind of proof of the communications.

If you file a complaint with DFCS, an examiner will review and evaluate alleged violations of the Oregon Mortgage Law. The examiner also will determine if the company or the alleged violations are under this agency's jurisdiction.

Once we receive a complaint, we forward it to the mortgage company for its review and response. We also request the mortgage company provide DFCS with a copy of the loan transaction file. When the mortgage company responds, we will provide you with a copy of that response for your review. The purpose of this process is to identify all of the issues relating to the complaint before DFCS makes its determination whether violations of the Oregon Mortgage Lender Law occurred. The time we need to finalize a complaint depends upon the nature of the complaint and the issues raised. If you need to send related documentation, please send us the photocopies and keep the originals. Keep a copy of the complaint for your records.

DFCS has no authority to resolve disputes in litigation, order that money be refunded to you, or order the cancellation of your contract with the company. If you want money to be refunded to you, you should seek the assistance of an attorney. This agency cannot give you legal advice or act on your behalf as an attorney.

We encourage you to file a complaint because it will help DFCS ensure that mortgage companies and loan originators under our jurisdiction are complying with the law. It also will help us prevent fraud or deceptive practices. You can file a complaint electronically or send us the complaint form, which is available on our Web site. You can read about more resources later in this publication.

State-chartered institutions

If your institution is regulated at the state level, contact the Oregon Division of Finance and Corporate Securities (DFCS), 503-378-4140, or toll-free 866-814-9710. To file a complaint you can download the complaint form from the DFCS Web site, www.dfcs.oregon.gov, file the complaint online following the instructions, or write to:

**Oregon Department of Consumer and
Business Services**
Division of Finance and Corporate Securities
350 Winter Street NE, Room 410
P.O. Box 14480
Salem, OR 97309-0405

Other state agencies

Appraiser Certification and Licensure Board

503-485-2555

www.oregonaclb.org

Oregon Building Codes Division

Manufactured homes

503-378-4133

www.bcd.oregon.gov

Construction Contractor Board

503-378-4621

www.ccb.state.or.us

Department of Justice (DOJ)

Financial fraud toll-free hotline

877-877-9392

www.doj.state.or.us

E-mail: consumer.hotline@doj.state.or.us

Oregon Insurance Division

Regulates insurance companies and agents

888-877-4894

www.oregoninsurance.org

Oregon Real Estate Agency (REA)

Regulates real estate and escrow services
503-378-4170
www.rea.state.or.us

Oregon State Board of Examiners for Engineering and Land Surveying

Regulates the practices of engineering and land surveying
503-362-2666
www.osbeels.org

Oregon Secretary of State

General licensee information
www.filinginoregon.com

Commercial banks

If the name of your bank includes the word “National” or has the initials “N.A.,” it is regulated by the Office of the Comptroller of the Currency (OCC). The phone number for the OCC is 800-613-6743 or 415-545-5976. The OCC’s Web address is *www.helpwithmybank.gov*.

Savings and loan associations or savings banks

If your institution has the word “Federal” or the initials “F.S.B.” or “F.A.” included in its name, it is regulated by the Office of Thrift Supervision (OTS). The number for the OTS is 800-842-6929. The OTS Web address is *www.ots.treas.gov*.

Credit unions

If your credit union has the words “federal credit union” in its name or the initials “F.C.U.,” you can contact the National Credit Union Administration (NCUA), 1-800-755-1030. The NCUA Web address is *www.ncua.gov*.

Other regulating agencies

Federal Reserve Board (FRB)

Regulates state banks that are members of the Federal Reserve System

888-851-1920

www.federalreserve.gov

E-mail: *consumerhelp@federalreserve.gov*

Federal Deposit Insurance Corporation (FDIC) San Francisco Regional Office

Regulates federally insured state banks that are *not* members of the Federal Reserve System

Division of Compliance and Consumer Affairs

877-275-3342

www.fdic.gov

Additional resources

▶ **For information about your mortgage payments:**

Federal Trade Commission's mortgage servicing publication

www.ftc.gov/bcp/edu/pubs/consumer/homes/rea10.shtm

▶ **Financial counseling agencies:**

Department of Housing and Urban Development (HUD) approved housing counseling agencies

www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm?webListAction=search&searchstate=OR

- ▶ **Reverse mortgages:**
Information about the Home Equity Conversion Mortgage (HECM)
www.fha.gov/reverse/index.cfm
Information about Fannie Mae's HomeKeeper
www.fanniemae.com/homebuyers/pdf/findamortgage/mortgages/Homekeeper_Fact_Sheet.pdf
- ▶ **To opt out of receiving prescreened credit card offers**
888-5-OPT-OUT [888-567-8688]
www.optoutprescreen.com
- ▶ **To obtain information about the new Bankruptcy Abuse Prevention and Consumer Protection Act**
877-FTC-HELP [877-382-4357]
www.usdoj.gov/ust/bapcpa/ccde/index.htm
- ▶ **To register for the national "Do Not Call" registry**
888-382-1222
www.donotcall.gov
- ▶ **HUD National Service Center**
For issues related to servicing of loans/
mortgage payments
888-297-8685
Housing discrimination issues
complaint hotline
800-877-0246
- ▶ **For foreclosure counseling assistance**
800-SAF-ENET [800-723-3638]
www.211info.org

Notes

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Oregon Department of
Consumer and Business Services

Division of Finance and Corporate Securities

350 Winter St. NE, Room 410

P.O. Box 14480

Salem, OR 97309-0405

Toll-free: 866-814-9710

Web: *dfcs.oregon.gov*