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MORTGAGES

DOWNEASTER Common Sense Guide

Finding, Buying and Keeping Your Maine Home

State of Maine
Bureau of Consumer Credit Protection
Department of Professional and Financial Regulation

Maine Bureau of Consumer Credit Protection

Toll-free Maine consumer assistance line:
1-800-332-8529 (1-800-DEBT-LAW)
TTY users call Maine relay 711

Maine Foreclosure Prevention Hotline
1-888-NO-4-CLŌZ
(1-888-664-2569)

Internet Home Page Address:
www.Credit.Maine.gov

The Maine Bureau of Consumer Credit Protection was established in 1975 to enforce a wide variety of consumer financial protection laws, including:

-Consumer Credit Code
-Truth-in-Lending Act
-Fair Credit Billing Act
-Truth-in-Leasing Act
-Fair Credit Reporting Act
-Fair Debt Collection Practices Act
-"Plain Language" Contract Law

The Bureau conducts periodic examinations of creditors to determine compliance with these laws; responds to consumer complaints and inquiries; and operates the state's foreclosure prevention hotline and housing counselor referral program. The Bureau also conducts educational seminars and provides speakers to advise consumers and creditors of their legal rights and responsibilities.

William N. Lund
Superintendent
January 2014

DOWNEASTER GUIDE TO FINDING, BUYING AND KEEPING YOUR MAINE HOME

Editing and production assistance provided by Steven Lemieux

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State of Maine
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Maine residents can obtain additional free copies of this booklet by contacting the Bureau of Consumer Credit Protection at 207-624-8527 or toll-free at 1-800-332-8529. Non-Maine residents may purchase the publication for $6 per copy, or at a volume discount of $4 per copy on orders of 50 or more. Shipping fees are included in the prices listed.

Dear Maine Consumers:

The six year period from 2002 to 2007 saw rapid increases in residential mortgage activity, not only in Maine but across the nation. New homes were constructed at a record pace, existing home sales surged, and the economy appeared strong. Mortgage rates reached historic lows, the number of non-bank lenders and mortgage brokers grew rapidly, and credit was easily available — too easily, in retrospect.

The financial crisis in the United States, which started in 2008 with the loss of stock values on Wall Street, marked the start of the so-called "Great Recession." The bursting of the residential real estate bubble affected not only Maine's economy, but America's as well. As of the writing of this guide in 2013, many in the real estate and home construction industries have not yet fully recovered.

Moving forward, everyone associated with the residential mortgage industry — regulators, banks, non-bank lenders, mortgage brokers, and consumer borrowers — must remember lessons learned from the recent past. State regulators have taken steps to provide greater oversight of the lending industry, including, most significantly, a licensing process called the Nationwide Multistate Licensing System (NMLS), which requires non-bank mortgage loan originators to pass national and state-specific licensing exams. The federal government has also created a new regulatory agency called the Consumer Financial Protection Bureau (CFPB) to review the practices of national banks and other lenders, including their mortgage lending activities.

This mortgage guide is designed to provide you with useful information to make wise financial decisions when considering mortgage loan financing. Regardless of the era or the economy, a careful, conservative approach to consumer borrowing, including homes, automobiles, and use of credit cards, *never* goes out of style.

As authors of this Guide, we hope that this publication makes a positive impact in your search for the "right" mortgage to fit your needs. Never compromise your long-term financial goals of saving and investing for the future, meeting your current and future obligations, and properly funding your retirement, by taking out a mortgage you cannot afford.

Sincerely,

David Leach, MPA
Principal Examiner

Edward Myslik
Senior Consumer Credit Examiner

Joseph Shagoury
Margaret Chase Smith Summer Intern, 2013

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Introduction

Renting vs. Buying:
When Does Purchasing a Home Make Sense?

The decision to purchase a home involves many variables beyond the simple mathematics of renting vs. buying. Emotions will never be separated from this process, but market conditions should not be overlooked.

In the early 2000s, consumers rushed to take advantage of the strong national economy and lax lending standards to purchase or construct homes. Many homebuyers were enticed by adjustable rate mortgages (ARMs) with low "teaser rates." These buyers hoped to eventually refinance their ARMs and reap the rewards of continued real estate appreciation. However, in late 2008 the real estate bubble burst, some lenders that offered subprime loans failed, and the national economy suffered — along with real estate values. For many people, the prospect of refinancing disappeared along with their equity.

Between 2008 and 2012, lenders filed more than 11 million home foreclosure filings in courts across the country. Many affected consumers would offer sobering opinions of home ownership that should not be ignored. For them, renting may have been a much better option.

It is common wisdom that buying a home is the best choice if you expect to be in the same place for any period of time. Consumers who purchase a home are paying towards something, and housing values generally increase over time. It is important to note, however, that not everyone stays in a home long enough to realize a benefit and a return on their investment. The buying and selling of a home requires paying many expenses and fees, including real estate commissions, closing costs, taxes, and insurance, that reduce a homeowner's equity

The tables on the next page summarize the costs involved in the purchasing, financing and selling of a house after only five years. They do not take into account the benefits of the existing IRS mortgage interest tax exemption, since every person's tax situation is different and tax laws may change.

For most of us, buying a home will be the largest financial decision that we will make. Potential home buyers should approach this purchase armed with knowledge and facts rather than with emotions alone. When buying a home, prepare for the inevitable ups and downs of the economy by purchasing a house that you can afford on day one, and that will be affordable if your financial situation changes in the future. Remember, always think before you borrow!

"Creditors have better memories than debtors."

-Benjamin Franklin

Renting vs. Buying: How Much Does it Cost?

Rental Expenses Over a Five Year Period*

Year	Monthly Rent	Total Cost to Rent
1	$1,200	$14,400.00
2	$1,212	$14,544.00
3	$1,224	$14,689.44
4	$1,236	$14,863.33
5	$1,249	$14,984.70
Total		**$73,454.47**

** Based on a monthly rental amount of $1,200.00, increased 1% each year to represent rental inflation. The cost of renters insurance and/or a security deposit were not added, since these items can fluctuate or are voluntary. The monthly rental amount of $1,200.00 (no utilities included) reflects average three-bedroom residential property rentals in the South Portland area in August 2013.*

Ownership Expenses Over a Five Year Period, Partially Offset by Real Estate Price Appreciation†

Year	Interest Expense	Real Estate Taxes	PMI (Private Mortgage Insurance)	Homeowners Insurance	Maintenance & Repairs	Closing Costs Purchase/ Sale	Appreciation Rate of 2%	Total Cost of Ownership
1	$7,426.38	$2,231.25	$1,113.84	$600.00	$1,338.75	$3,188.75	-$3,500.00	$12,398.97
2	$7,303.17	$2,231.25	$1,113.84	$600.00	$1,365.53	$0.00	-$3,570.00	$9,043.79
3	$7,174.30	$2,231.25	$1,113.84	$600.00	$1,392.84	$0.00	-$3,641.40	$8,870.83
4	$7,039.51	$2,231.25	$1,113.84	$600.00	$1,420.69	$0.00	-$3,714.23	$8,691.06
5	$6,898.53	$2,231.25	$1,113.84	$600.00	$1,449.11	$12,232.92	-$3,788.51	$20,737.13
Total	**$35,841.89**	**$11,156.25**	**$5,569.20**	**$3,000.00**	**$6,966.91**	**$15,421.67**	**-$18,214.14**	**$59,741.78**

†Based on a sales price of $175,000.00 and a loan amount of $166,205.00 (reflecting a 5% down payment); the interest rate is fixed at 4.500% with an amortization of 30 years. An assumed annual real estate appreciation rate of 2% per year reduces the total cost of ownership. Principal portion of each monthly payment is not labeled as an expense, since the homeowner will recover that value upon sale.

"People should watch out for three things: avoid a major addiction, don't get so deeply into debt that it controls your life, and don't start a family before you're ready to settle down."

-James Taylor

Ownership Expenses Over a Five Year Period. with Real Estate Price Depreciation+

Year	Interest Expense	Real Estate Taxes	PMI	Homeowners Insurance	Maintenance & Repairs	Closing Costs Purchase/ Sale	Depreciation Rate of 1%	Total Cost of Ownership
1	$7,426.38	$2,231.25	$1,113.84	$600.00	$1,299.38	$3,188.75	$1,750.00	$17,609.60
2	$7,303.17	$2,231.25	$1,113.84	$600.00	$1,286.38	$0.00	$1,732.50	$14,267.14
3	$7,174.30	$2,231.25	$1,113.84	$600.00	$1,273.52	$0.00	$1,715.17	$14,108.08
4	$7,039.51	$2,231.25	$1,113.84	$600.00	$1,260.78	$0.00	$1,698.02	$13,943.41
5	$6,898.53	$2,231.25	$1,113.84	$600.00	$1,248.17	$10,566.53	$1,681.04	$24,339.36
Total	**$35,841.89**	**$11,156.25**	**$5,569.20**	**$3,000.00**	**$6,368.23**	**$13,755.28**	**$8,576.74**	**$84,267.59**

+*Based on a sales price of $175,000.00 and a loan amount of $166,205.00 (5% down); the interest rate is fixed at 4.500% with an amortization of 30 years. Since real estate values sometimes decrease, an annual real estate depreciation rate of 1% per year adds to the total cost of ownership. Principal portion of each monthly payment is not labeled as an expense, since the homeowner will recover that value upon sale.*

Chapter 1

How Much Home Can I Afford?

Pre-qualify Yourself

An important step in determining which home is the "right-sized" home for you is a careful review of your finances. Mortgage lenders use debt-to-income ratios to pre-qualify and qualify applicants. This process is not mysterious if you take the time to qualify yourself in the same manner by which a mortgage lender will qualify you.

Lenders qualify applicants differently depending on whether they are salaried or self-employed. Salaried applicants simply need to give their paystub a look, while self-employed applicants must perform a more detailed financial analysis. For the salaried borrower, gross pay is used to calculate the debt-to-income ratio. Finding your gross pay is simple: it's your *current* pay for that pay period *before* taxes and other deductions. The only tricky part is converting the income reflected on your paystub into a monthly amount rather than hourly, weekly or biweekly. The following chart can help you convert these non-monthly payments into a monthly payment schedule:

Pay Period	How to Convert to Monthly
Twice Monthly	Gross Pay x 2
Biweekly	Gross Pay x 26/ 12
Weekly	Gross Pay x 52/ 12
Hourly	(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12

Lenders will consider you self-employed if your ownership of a business exceeds 25%. The self-employed applicant will be faced with more work in order to calculate their monthly income; rather than using pay stubs, completed tax returns and professionally-prepared financial statements will be used to determine your monthly income. It is important to note that self-employed borrowers will be using their *after tax or net* income. However, most lenders allow certain expenses to be added back into the net income. Fannie Mae's 1084 Cash Flow Analysis form, while complicated, will help you calculate your monthly income in the same manner employed by most mortgage lenders.

Calculating Debt-to-Income Ratios

The debt-to-income ratio is a factional number representing the percentage of your monthly income devoted to paying your monthly debt. For example, a person making $5,000 per month with debts of $1,000 per month has a debt-to-income ratio of .20 or 20% ($1000/ $5000 = .20). Lenders use two types of ratios:

- **Front-End Ratio:** The Front-End Ratio is calculated by dividing the applicant's total monthly mortgage payment — principal, interest, taxes and insurance ("PITI") — by the borrower's gross monthly income. ***This ratio should not exceed 28%.***

- **Back-End Ratio:** The Back-End Ratio includes PITI plus the applicant's other monthly loan payments (automobiles, credit cards, student loans etc.). ***This ratio should not exceed 43%.***

Because of new federal lending regulations designed to ensure that borrowers have the ability to repay their mortgage loans, most lenders will be able to offer mortgages only to those borrowers whose back-end ratios do not exceed 43%. These so-called "qualified mortgages" are expected to make up the vast majority of mortgage loans for many years to come. Therefore, a mortgage loan with a back-end ratio above 43% may be extremely difficult to attain in the future.

Debt-to-Income Ratio Examples

Front-End Ratio: A proposed monthly mortgage payment of $825 (PITI) divided by a gross monthly income of $3,333 ($40k/year) results in a 24.7% Front-End Ratio.

Back-End Ratio: A proposed monthly mortgage payment of $825 (PITI) plus *other* monthly debt payments of $555.00 equals total monthly payments of $1,380. $1,380 divided by a gross monthly income of $3,444 ($40k/year) results in a 40.0% Back-End Ratio.

Plan Ahead. . .

The acquisition of debt before you attempt to purchase a home can have a dramatic effect on your ability to qualify for a low-cost mortgage. Excessive auto, credit card and student loan debt can derail your plans to finance the home you want. Try to be smart when it comes to borrowing, because your debt-to-income ratios are among the most important factors your lender will consider.

Chapter 2

Credit Reports and Credit Scores

After calculating your debt-to-income ratios, and determining the price range you can afford, you should check your credit history. Your credit history and credit score play vital roles in your ability to borrow. Even if your debt-to-income ratios are favorable, a poor credit history will prevent most lenders from approving your loan. Similar to a review of your finances, a review of your credit history is recommended before you apply for a mortgage loan.

Obtaining Your Credit Report

The Fair Credit Reporting Act ("FCRA") allows a person to obtain a free copy of their credit report from *any consumer reporting agency* annually. A consumer reporting agency is also known as a "credit bureau." It is recommended that you take advantage of this free service each year by calling **(877) 322-8228** or by visiting www.AnnualCreditReport.com.

There are three major credit bureaus in the United States: Equifax, Experian and TransUnion. Request a report from each bureau in order to get a comprehensive look at your credit history. When a mortgage lender "pulls" your credit, they use software that merges the data from all three credit bureaus into one report. This is called a "tri-merged" report. Before the creditor gets to study your credit history, you should ensure that no errors or omissions exist. The FCRA gives you the right to challenge any errors or omissions in the reports. However, this right does not allow the consumer to simply compel a credit bureau to amend a report as they wish; an investigation will be conducted by the bureau and the consumer may be required to supply evidence supportive of their request to make changes. The credit bureaus are required to provide you with detailed instructions regarding their correction procedures.

Understanding Your Credit Report

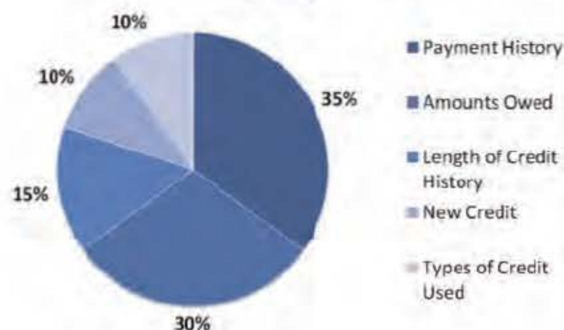
Credit reports are cryptic and difficult to read. The information in a typical report contains codes, abbreviations and a layout that only a robot could love! The top of the report identifies the reporting agency, followed by the subject of the report (the consumer). The bulk of the report consists of "tradelines." This section lists debts that are currently outstanding by loan size (largest first), followed by loans that have been paid off, listed alphabetically by creditor. Below the "tradeline" section, the "public records" section is usually found, followed by the "inquiries" section. The inquiry section should be studied closely, since it shows who has recently looked at your credit file.

Understanding and Improving Your Credit Score

It is important to understand that your credit score may not be included in the free annual credit report provided by the credit bureaus. However, the credit score must be provided by the lender after an application is

made. The credit score is not created by the bureaus. Instead, a company called Fair Isaac Corporation ("FICO") generates credit scores. Each bureau hires FICO to analyze your credit file; FICO will use a proprietary computer algorithm to "score" your credit history, and a number between 300 and 850 will be assigned to each of your three bureau files. The higher the FICO score, the lower the risk of default on a loan. Mortgage lenders will typically use the lowest FICO number of the three to qualify you and price your mortgage loan. Mortgage loan products are priced according to risk; a FICO score below a certain level will result in a higher APR on your mortgage loan, although there are many programs available that do not establish a minimum FICO threshold.

Improving your credit score is easier that you may think. Having a low credit score should not dissuade you from considering a house purchase, as credit scores can be raised quickly. Correcting errors on your credit report and removing negative information that is over seven years old (ten years for bankruptcy) will have a positive effect on your credit score. Limiting the amount of available credit is very important. If you have multiple unused credit cards or lines of credit FICO will assume that you *could* max them out, resulting in massive monthly payments. Use common sense—avoid excessive inquiries into your credit report, pay your bills on time, and check your credit report with each bureau annually.



Credit Repair Scams

Before credit repair companies can offer their services (promising to raise credit scores or fix/ repair disputed credit report tradelines) to Maine consumers, they must be fully licensed by the Maine Bureau of Consumer Credit Protection. The Bureau has received multiple reports of Maine consumers falling prey to unlicensed credit repair scams (often found on the Internet or through telemarketing), losing hundreds of dollars in the process. Be safe and be smart; call the bureau at 1-800-332-8529 to find out if they have a license before engaging (providing private financial information/ committing funds) any credit repair company.

"Opportunity is missed by most people because it is dressed in overalls and looks like work."

-Thomas Edison

Chapter 3

Shopping for a Mortgage & Choosing a Lender

After reviewing your finances and checking your credit, it is time to shop for a mortgage. The goal of this chapter is to describe the players and some of the basic mortgage products currently available.

Before the financial crisis, the mortgage lending landscape was very different from how it is now. There were literally hundreds of different mortgage products available to consumers, many of which are no longer offered. New mortgage lending regulations have effectively banned products with excessive fees and risky features (such as interest-only loans). Additionally, the lender is now required to verify your ability to repay the mortgage loan. Mortgage Loan Originators (MLOs), and the companies they work for, must be properly licensed or registered with the Nationwide Mortgage Licensing System (NMLS). The NMLS provides access to its lender database, allowing consumers to check on mortgage lenders and MLOs, and to file complaints.

Mortgage products are presently available through two main channels:

Financial Institutions
Banks, Credit Unions, Savings Banks and Savings & Loans

Non-bank Lenders
Independent Mortgage Brokers and Private Mortgage Companies

Only NMLS licensed or registered MLOs are allowed to take applications and to negotiate the terms of a mortgage loan. If an MLO is employed by a financial institution, they must be registered with NMLS. MLOs employed by non-bank lenders or mortgage brokers are required to be licensed *and* tested.

Types of Mortgage Loans

- **Conventional Loan**: This type of loan is by far the most common and most popular type of mortgage loan. Conventional loan rates can be either fixed or adjustable, with terms ranging from 10 to 30 years. These loans are underwritten to guidelines established by two government-controlled entities, Fannie Mae and Freddie Mac, which purchase mortgage loans from lenders. The minimum down payment on a conventional loan is around 5%, with a maximum 28% front and 43% back ratio. These loans are risk priced, so higher FICO scores will result in a lower APR (annual percentage rate). Down payments of less than 20% on a conventional loan require private mortgage insurance (PMI).

- **Federal Housing Authority (FHA) Loans**: FHA loans can have either fixed or adjustable interest rates, and terms ranging from 10 to 30 years. The FHA does not purchase loans, rather it provides a government guarantee to investors if a borrower defaults. This type of loan is very popular with first-time homebuyers, as it allows low down payments (around 3%). The FHA does not formally require a minimum FICO score, however a score of 580 is considered a base. Maximum ratios on FHA loans are 31% front and 43% back. FHA loans are priced about the same as conventional mortgage loans, but the mortgage insurance is more expensive than conventional PMI (resulting in higher APRs).

You can receive a much lower interest rate by shopping around for your loan. To show how much you can save in the long run, sample loans with two different interest rates are given below. Notice the difference in interest paid over the 30 years of the mortgage.

Example 1: These consumers did not comparison shop, and quickly found a loan with an APR of 5.75%. This is a 30-year mortgage with a 20% down payment ($30,000), with $120,000 financed.

Interest Rate: 5.75%	**Term:** 30 years
Total of Payments: $252,101.75	**Monthly Payment:** $700.29
Loan Payoff Date: August 2045	**Interest Paid: $132,104.40**

Example 2: These consumers did their homework, and found a loan with an APR of 4.87%. All of the other terms are the same as the previous example.

Interest Rate: 4.87%	**Term:** 30 years
Total of Payments: $228,486.86	**Monthly Payment:** $634.69
Loan Payoff Date: August 2045	**Interest Paid: $108,486.86**

TOTAL SAVINGS: $23,000

Note Rate vs. Annual Percentage Rate (APR)

Regulation Z (interpreting the Truth in Lending Act) requires that both the interest/note rate and APR be displayed in consumer credit advertising. The APR is the "true cost of credit," with all prepaid charges and (in the case of mortgages) mortgage points calculated into that percentage. Much like comparison shopping for an item (ketchup, lobster, potatoes) using unit or per pound pricing, APR is the simplest way to compare mortgage products.

Advance Fee Loan Scams and Other Phony Lenders

"Too good to be true" offers of $5,000-$10,000 or more in low APR loans in exchange for three or more upfront monthly payments are always scams. Advance fee loans are illegal in the U.S. and Canada

Don't wire funds to unknown lenders you find on the Internet. Check with us at the Bureau of Consumer Credit Protection (1-800-332-8529) to find out whether a lender has the necessary license.

- **United States Department of Agriculture (USDA) Rural Development Loans**: Only fixed-rate 30-year terms are available on USDA Rural Development loans. The USDA does not purchase loans. Like the FHA, it provides a government guarantee to investors if a borrower defaults. Rural development loans are for first-time homebuyers only; to qualify, properties must be located in areas defined as "rural" by the USDA, and the income level of the applicant cannot exceed USDA guidelines. Current USDA guidelines do not require a down payment from the borrower, and allow for maximum ratios of 31% front and 43% back; USDA rural development loans require minimum FICO scores of around 580. There is no monthly mortgage insurance required on USDA loans, however a guarantee fee is due at closing. This fee can be rolled into the loan amount, making out-of-pocket costs very low. APRs for USDA loans are generally lower than for conventional loans.

- **Department of Veterans Administration (VA) Loans**: VA loans are offered to veterans, active service duty members, the National Guard, reserve members and eligible surviving spouses. These loans are available with both fixed and adjustable interest rates, and terms ranging from 10 to 30 years. VA loans are guaranteed by the government, and do not require down payments or mortgage insurance. Debt-to-income ratios on VA loans are calculated using different methods, however 41% is commonly the maximum back ration used.. A so-called funding fee is due to the VA at closing, and represents about 2% of the loan amount.

- **Maine State Housing Authority (MSHA) Loans**: The Maine State Housing Authority has a "First Home Program." This program provides low fixed-rate mortgages to people who have not owned homes in the last three years. Although income limits apply, most Maine households are eligible for the First Home Program. MSHA loans require a minimum FICO score of 640, and maximum debt-to-income ratios of 29% front and 41% back.

- **Jumbo Loans**: A mortgage loan that exceeds the conventional loan limit established by Fannie Mae and Freddie Mac is considered to be a jumbo loan. Presently, the conventional loan limit is $417,000. Larger down payment requirements are typical with jumbo loans, along with significant cash reserves required after closing. Maximum debt-to-income ratios on Jumbo loans are typically the same as those on conventional loans while, currently, the interest rates for jumbo loans are below those of conventional loans.

Mortgage lending is a highly competitive area of finance. Lenders are motivated to get your business and will compete for it, so do not be afraid to shop around for the best rates and terms. However, be careful during this process because excessive credit bureau inquiries by lenders or brokers may negatively affect your credit score.

Mortgage Points

A mortgage point is a fee equal to 1% of the mortgage amount. Generally, the more points paid upfront, the lower the mortgage interest rate will be. Borrowers planning to stay in their home for many years may want to consider "buying down" their interest rate by paying points. Potential homebuyers who anticipate only a short stay in their new home should avoid points, as they will not be able to quickly recover point fees through lower interest payments. For an example of how mortgage points work, see page 11.

MORTGAGE POINT COST COMPARISON

How Long Does it Take to Recover the Mortgage Points Paid?

The chart below provides evidence that it takes a number of years (7 in this example) before the upfront points that the borrower pays yield an overall net savings (finance charge reduction minus mortgage points) for the consumer.

The moral of this story? Buying down (reducing) a mortgage's note/interest rate makes sense for those homeowners who plan to remain in their homes, with their original mortgage, for an extended period of time.

$100,000 Financed—30 Year Term					
	5.27% Note Rate; 0 Points ($0.00)		**5.00% Note Rate; 2 Points** ($2,000.000 Paid Upfront)		**Finance Charge Savings to Date**
	Yearly Interest Paid	**Running Total**	**Yearly Interest Paid**	**Running Total**	
Year 1	$5,216.39	$5,216.39	$4,966.50	$4,966.50	**$249.89**
Year 2	$5,140.56	$10,356.95	$4,891.01	$9,590.51	**$766.44**
Year 3	$5,060.65	$15,417.60	$4,811.67	$14,402.18	**$1,015.42**
Year 4	$4,976.44	$20,394.04	$4,728.24	$19,130.42	**$1,263.62**
Year 5	$4,887.69	$25.281.73	$4,640.59	$23,771.01	**$1,510.72**
Year 6	$4,797.19	$30,078.57	$4,548.42	$28,319.43	**$1,759.49**
Year 7	$4,695.65	$34,774.57	$4,451.59	$32,771.02	**$2,003.55**
Break Even Point: 7 Years					

Chapter 4

Purchasing Your Home

When buying a home, consumers almost always choose to go through a licensed real estate professional. Real estate licensees will show you houses and help you find one that is right for you. These professionals are usually well-versed in real estate in your area, and will offer insights into the homes that you are looking at. Remember, in most cases real estate licensees represent the sellers of these homes. They are being paid with money from the purchase of a property, so they have a vested interest in trying to sell it. For this reason you need to exercise sound judgment when working with real estate licensees. Select a home that you and your budget can afford.

There are also real estate agents called **buyer's agents** who can help represent you, the buyer. A buyer's agent may be able to show you more properties (and give a more rounded view of individual properties), but, like real estate licensees, many buyer's agents depend on money from the home being sold (some buyer's agent contracts require compensation from only you, the buyer). Since buyer's agents are often paid by commission, the more expensive the home, the greater their compensation. As such, you will want to exercise common-sense when using a buyer's agent. A buyer's agent represents you; take advantage of their knowledge, but remember to personally evaluate the costs of every home you look at.

The State of Maine's Real Estate Commission oversees the activities, licensing, and conduct of real estate professionals operating in Maine.

If you have any questions or concerns, they can be reached at:

1-207-624-8524

Seller's Disclosure

Maine Law requires the party selling a home to provide the buyer with a form detailing many important aspects of the home and land. This is an extremely important document to read, as it will tell you any major problems that a house might have. The form must describe the water system that is used (e.g., a well or town water), the heating system, waste disposal systems, and any hazardous materials (such as asbestos) found in the house. The seller must disclose known defects in any of the home's systems and must describe any other known problems with the house. Keep in mind that while the seller is required to disclose everything that they know about, they may not be aware of some of the problems that a house might have.

Purchase and Sale Contract

Once you have decided on the house you want, you will need to make a contract with the owner of the property to ensure that no one else will purchase it. The purchase and sales contract will list a lot of important information about the pending transaction, including the final sale price and the conditions that would allow either party to cancel the sale. There are often addendums that may require the seller to pay some of the closing costs or to include furniture with the sale of the house.

The final sale price is subject to several important contingencies. If one of the contingencies (such as a title search) shows something that negatively affects the value of the house (such as a mechanic's lien recorded against the property), the contingency will allow you to back out of the transaction. There are also often appraisal contingencies (e.g., if the

house is appraised at a lower value than what is agreed upon, the price may be lowered or you may be able to void the transaction) and inspection contingencies (e.g., if the inspection finds a pest infestation, the seller may agree to either lower the price or fix the problem). There can also be financing contingencies (such as if you, the buyer, cannot secure financing after a good faith effort, you can get out of the deal). The only effective contingencies are the ones that are written into the contract, so read the document carefully before you sign it.

Once you have decided on a home, you will likely need to make a cash deposit. This earnest money deposit is cash that you put down, usually as a check, that will need to be verified by the lender. It often ranges from $500 to 5% of the house's value and, if you follow through with the purchase, the funds will be applied to either your down payment or to closing costs.

Except for express written contingencies or conditions, *a purchase and sales contract is binding*. If you enter into it without one of the contingencies being breached it may be expensive or impossible to get out of the contract. At a minimum, you may lose your cash deposit.

Home Inspections

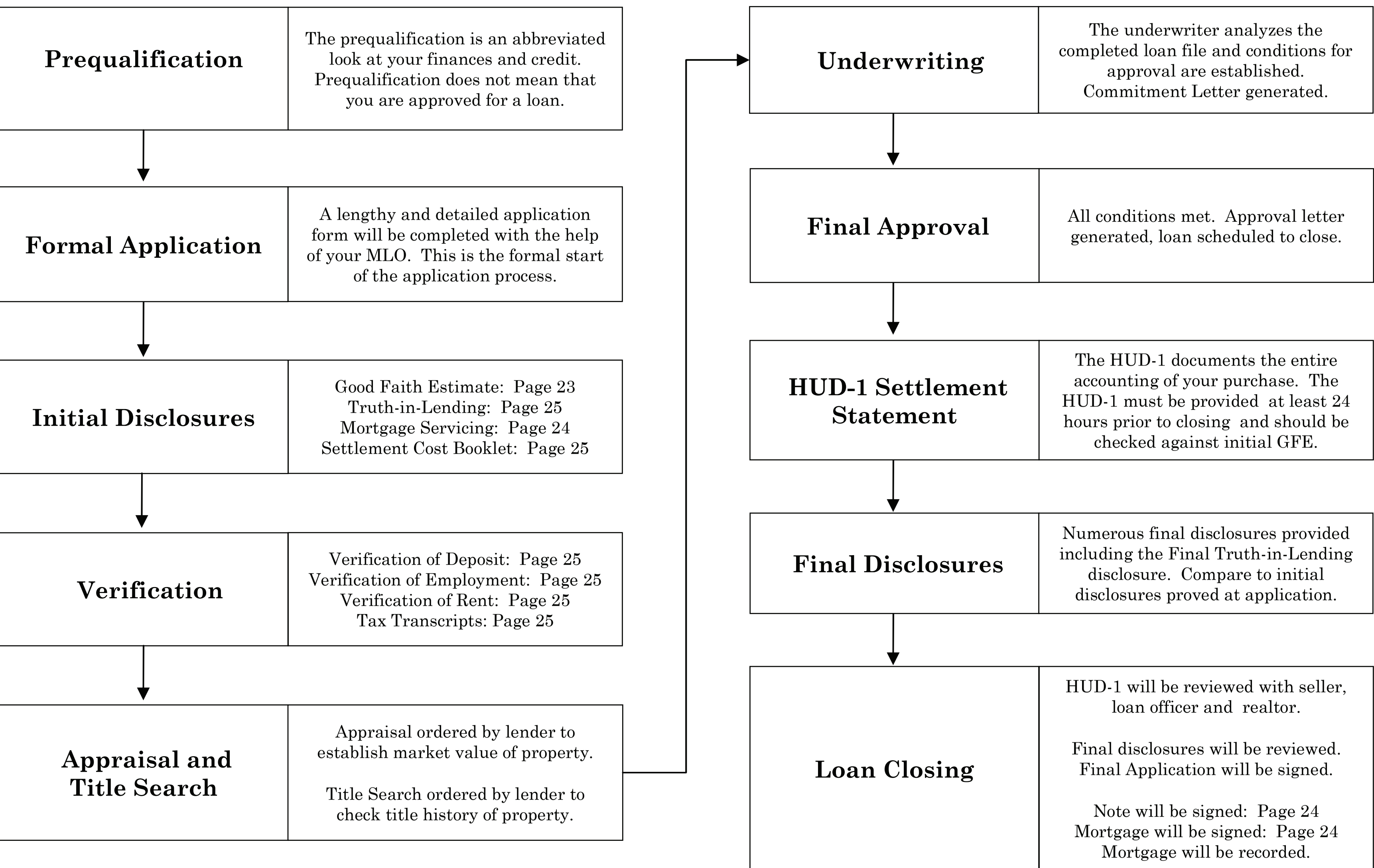
We strongly recommend that you have a professional inspect the home from attic to cellar. A home inspector will likely be far more qualified than you are to determine the condition of your potential home. While inspections may add extra costs to purchasing a home, they are extremely important. Unlike real estate licensees and buyer's agents, home inspectors do not benefit from the sale of a house, so you know they are working for you. An inspector may find that the home is in perfect condition and needs nothing apart from a few minor fixes. If this is the case, it may be a good house for you to buy. If the inspector find something wrong with the property, *and* if you have made the sale contingent on the results of the inspection, you can renegotiate a better price or ask the seller to pay for the repairs.

The process of finding your home is an important one. Do your research as a consumer. Listen to the real estate licensees, buyer's agents, and inspectors that you hire. Make an informed decision about your purchase. You are about to spend a significant amount of time and money on this property; make sure that the home you pick now is the right one for you for many years to come.

Were you aware?

The word mortgage comes from the French words *mort* and *gage*, which mean "death" and "pledge," respectively. If the borrow fails to fulfill their pledge by not paying the mortgage, the property is taken from them and is "dead" to them. If the borrower fulfills their pledge by paying the mortgage, the pledge is dead to the mortgagee!

The Mortgage Approval Process



Chapter 5

Post-Closing: Keeping Your Property, *Your* Property

Whom Do I Pay?

A number of lenders will close your mortgage locally (at a title company, bank or credit union) and then sell your mortgage and its servicing to an out-of-state entity. Some Maine community banks, savings banks and credit unions hold those loans in portfolio, accept payments, and answer your servicing questions locally. Other Maine financial institutions may close your mortgage locally, then sell the mortgage while keeping the servicing (receiving payments) local.

For many Mainers, being able to make their payments locally, and visiting a loan department staffer face-to-face, are important factors in deciding where to apply for a mortgage. If "staying local" is important to you, ask where you will be making your payments if you apply to and are approved with a specific lender.

Amortization

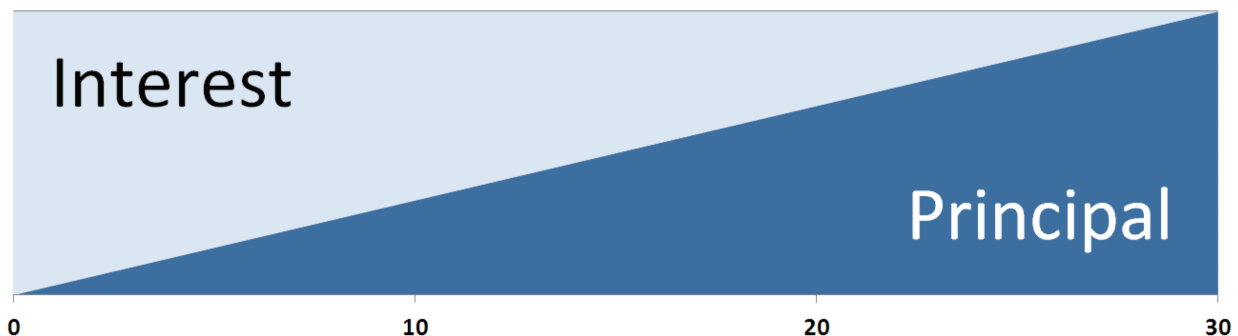
Amortization is how your monthly payment is distributed between interest and principal (balance reduction) through the life of your mortgage loan. For the first several years of your payment schedule, most of each payment will go toward paying off interest. However, as the years go on more and more of each payment will be applied to the principal. Toward the end of your repayment period most of each payment will go to principal, and only a small portion to interest.

Regular or Periodic Mortgage Over-Payments

For those financially able, consider this great mortgage reduction strategy. . .

ROUND UP!

With most home loans, any mortgage payment amount made in excess of the required amount is applied as a **direct principal (loan balance) reduction.** If your monthly or bi-weekly mortgage payment is $777.00, then if you're financially able, pay $800.00. If it's $926.00, pay $950.00; if it's $459.00, pay $500.00! Down the road you'll be surprised to find that you have paid your mortgage off months or years early!



Bi-Weekly Mortgages

A bi-weekly mortgage is a mortgage where once every 14 days (2 weeks), you make one-half (1/2) of your monthly payment. With 52 weeks in a year, that's 26 half-payments, or 13 full payments each calendar year. Because you are paying the equivalent of the extra month's payment each year, a 30-year bi-weekly mortgage will be paid off in about 25 years, a 20 -year mortgage in about 17 years, and so on. If you can afford to make one extra mortgage payment each year, this may be a viable option for you.

HELOCs (Home Equity Lines of Credit)

Home equity lines of credit allow consumers to access a revolving line of credit (secured by their house) which draws down all or part (depending on the lender's program) of the equity in their homes. Once approved, consumers can access this line of credit though special paper checks or electronic access devices to pay for items such as home repairs or remodeling, children's college expenses, debt consolidation (credit cards, car loans, etc.), vehicle purchases, and even personal entertainment. The larger the balance owed, the greater the monthly payments.

HELOCs generally feature adjustable rates, and will be renewed periodically as the lender evaluates the borrower's financial position. In most cases, interest is deductible. Check with your tax professional for more information on interest deductibility.

People who overuse HELOCs to fund lifestyles above their financial means are often faced with large debt in addition to the amount owed on their first mortgages. Some find themselves struggling in a "negative equity" position (i.e., they owe more on their home that the house is worth).

The Maine Bureau of Consumer Credit Protection operates the Maine Foreclosure Hotline, and we hear from many distressed Maine homeowners at risk of, or on the brink of, foreclosure. Some callers tell us they now regret how they used, or misused, their home equity lines of credit:

- "If I had to do it over again, I would have gone easier on credit cards, vacations and vehicles I really could not afford…and would have definitely not taken out a home equity line of credit to pay off my credit card balances and the remainder of the truck loan. My mortgage payments are several months delinquent, and my house is on the line."
- "Treating my home like a piggy bank, and taking the equity out (through a home equity loan) was a big financial mistake. I used the money to help my kids. If I lose my house, I may have to move in with them."
- "A decade ago I planned to pay off my mortgage a few years before my retirement; now, because of overdoing it with my home equity line of credit, I may be forced to work a part-time job until my 80th birthday to pay that thing (HELOC) off."

Cash-Out Mortgage Refinancing

A reoccurring theme heard by staffers on our regulatory agency's Foreclosure Prevention Hotline (1-888-664-2569) is the many regrets that long-time homeowners have about multiple refinances in which they drew equity (cash) from their home. Consumers who have lived in their homes 15, 20, or even 30 years report they are now facing an "equity crisis," in which the value of their home is equal to or less than their mortgage balances.

A cash-out refinance is essentially a lump-sum second mortgage, in which some or all of the available equity in the home is paid to the consumer in cash (a bank check). Borrowers who originally purchased their home when they were in their mid to late 30s, and who had good

intentions of being mortgage-free prior to retirement, could face the reality of being 5 to 10 years from retirement with essentially 80% or more of the value to their mortgage balance still to be paid back, with interest! The collapse of home values starting in 2008 certainly exacerbated this situation, placing some middle-aged borrowers in a negative or "upside down" equity position in which the value of their homes were less than their mortgage balances.

Reverse Mortgages

The Federal Housing Administration's (FHA's) Home Equity Conversion Mortgage (HECM), more commonly referred to as the "reverse mortgage," has features different from those of a standard loan. Instead of making monthly payments to a lender, homeowners *receive* payments from a servicer. These payments are based on several factors, including the homeowner's age and the equity position of their home. Consumers can receive a lump sum payment, or a line of credit and then monthly payments similar to an annuity until the line of credit reaches $0.

Reverse mortgages do not have to be paid back until the borrowers die, vacate their home, or fail to meet all conditions required by the terms of the reverse mortgage contract. *Reverse mortgage borrowers are responsible for paying property taxes, homeowner's insurance, and all utility bills.*

Federal law requires potential reverse mortgage holders to complete counseling before agreeing to a Home Equity Conversion Mortgage. During this counseling session, consumers are advised of the fees and other costs associated with reverse mortgage products. Ideally, reverse mortgages allow seniors to remain in their homes and draw down their equity in order to meet their financial needs when their retirement income is not sufficient to maintain home ownership.

General Qualifying Criteria for Reverse Mortgages

- The borrower or borrowers must be age 62 or older
- The home must be owned "free and clear" or have a mortgage balance which can be paid with the reverse mortgage proceeds
- The borrower must live at the residence
- The residence must be either a single family home, or a 2-4 unit home with one of those units occupied by the borrower.

The National Council on Aging offers free information on reverse mortgages, including a downloadable booklet called "Use Your Home to Stay at Home."

To contact the National Council on Aging, call:
1-800-510-0301

To locate a HECM counselor, contact the U.S. Department of Housing and Urban Development at 1-800-569-4287

Chapter 6

Know Your Rights: Maine State and Federal Laws Designed for You

There are a variety of laws designed to protect you from some of the problems that could occur during the mortgage process, and to provide guidance (and recourse) if things go wrong. Knowing the laws that are designed to help you, as a consumer, can make trying times easier to handle.

Federal Laws

- **Equal Credit Opportunity Act (ECOA):** The Equal Credit Opportunity Act prohibits creditors from discriminating against applicants on the basis of race, color, sex, marital status, national origin, receipt of income from a government benefit program, disability or religion.

- **Fair Credit Reporting Act (FCRA):** The Fair Credit Reporting Act allows consumers to correct errors on their credit reports, and to acquire a credit report from each of the three major credit reporting agencies credit, for free, every 12 months.

- **Fair Housing Act:** The Fair Housing Act protects consumers against housing-related discrimination.

- **Real Estate Settlement Procedures Act (RESPA)**: The Real Estate Settlement Procedures Act prohibits kickbacks and referral fees on closing costs that make closing more expensive for loan applicants. This act also requires that consumers receive a Good Faith Estimate (GFE). A Good Faith Estimate gives consumers a basic outline of what they will be paying for settlement costs associated with the loan they are getting.

- **Truth in Lending Act (TILA)**: The Truth in Lending Act requires lenders to fully disclose all the costs of the loan including the APR (annual percentage rate), the total finance charge, the monthly payment amount, the term (length) of the loan, and whether or not the interest rate can change.

- **Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act):** The SAFE Act established a national mortgage licensing database (NMLS), requiring that mortgage loan originators become trained, qualified and licensed to do their jobs.

Maine Laws

(applicable to lenders subject to Maine law)

- **Joint Regulation 119/250:** Joint Regulation 119/250 established standards for what the State of Maine calls "alternative mortgages". Alternative mortgages are home loans in which the interest rate is not fixed (i.e., adjustable rate loans and interest-only loans).

  This regulation affects several key aspects of these mortgages, the most important of which are as follows:

  - Joint Regulation 119/250 explains what index can be used for determining interest rates. It must be an "index that is verifiable by the borrower, beyond

the control of the creditor and which shall be specified in the loan documents." This prevents lenders from simply raising interest rates on their own.

- This rule limits how frequently the interest rate can change. Interest rates on basic adjustable rate loans cannot change more often than quarterly. For more complex alternative mortgages the maximum frequency of change is yearly. This rule is also intended to keep interest rates and the payments dependent on them from changing unpredictably.

- Joint Regulation 119/250 dictates when rate changes are optional, and when they are mandatory. For example, changes in rates are limited by a cap. When the index rises, the lender is allowed to raise rates by that amount (as long as it does not exceed the cap). When the index rate falls by more than ¼ of 1%, the lender is *required* to lower the interest rate by the amount the index has decreased.

- This rule prohibits prepayment penalties on adjustable rate mortgages. "A creditor or financial institution must allow borrowers to prepay in whole or in part without penalty at any time." Fixed rate mortgages can contain prepayment penalties, if the lender has made the proper disclosures to the consumer.

For the full text of Joint Regulation 119/250 visit:

http://www.maine.gov/pfr/financialinstitutions/regulations/reg19.htm

- **Maine Consumer Credit Code, Title 9-A:** Title 9-A contains a wealth of consumer protections. One chapter is entirely devoted to home loans, and several other chapters have sections that affect lending practices. Many of these laws are designed to give consumers protections and rights that federal laws do not offer. Title 9-A provides a wide range of important protections and remedies for potential and current homeowners. Title 9-A includes:

  - **Supervision of mortgage lenders:** The State of Maine requires that all non -bank mortgage lenders ("supervised lenders") be licensed by the State before offering financing to Maine residents. Title 9-A, §2-302

  - **Delinquency Charges:** A consumer cannot be charged more than 5% of the monthly principal and interest payment for being delinquent on a loan. A late fee may be assessed only after a payment is 15 days late. Title 9-A, § 2-502.

  - **Right to Prepay:** Maine consumers are allowed to prepay their loans, in part or in full, at any time. There may be charges associated with this prepayment, however the charges must be "reasonable". Title 9-A, § 2-509.

  - **Consumer's Choice of Attorney:** In Maine, consumers have the right to "choose their own attorney" to perform real estate title work. The lender can still decide who will handle the loan closing. Title 9-A, § 3-311 and § 9-303.

  - **Copy of Real Estate Appraisal:** If the lender orders an appraisal of a property to be done at the consumer's expense, the lender must provide a copy of that appraisal to the consumer upon closing. The consumer has 90 days from the closing (or the date the loan was

declined) to request a copy. Title 9-A, § 3 -313 and § 9-309.

- **Brokered Loans Rules:** The Consumer Credit Code also requires that, if a loan is brokered, the broker must provide the borrower with two separate forms.

  The first is the **written disclosure**. This document must be given to the consumer before any papers are signed or any money is paid. The written disclosure must show the consumer that the loan broker has a surety bond on file with the Bureau of Consumer Credit Protection; that all fees paid to the broker must go into an escrow account; and that a written, signed agreement must be entered into between both parties. Title 9-A, § 10-303.

  The second item, known as a **broker contract,** must accurately disclose the how much the broker is being paid for their services and provide a description of those services. Title 9-A, § 10-302.

For the full text of the Maine Consumer Credit Code, visit:

http://www.mainelegislature.org/legis/statutes/9-a/title9-A.pdf.

- **Fair Credit Reporting Act:** Many of the provisions of Maine's Fair Credit Reporting Act are the same as the federal version of the law; however, Maine law does contain a few exceptions that offer greater protections than the federal law. Maine's Fair Credit Reporting Act states that if a Maine consumer's application for a loan is denied, the lender must provide the consumer with a copy of the "merged report" used by the lender. A merged report is the most detailed report that lenders use to judge consumer's credit Title 10, chapter 210, § 1320 (2-C).

For the full text of Maine's Fair Credit Reporting Act, visit:

http://www.mainelegislature.org/legis/statutes/10/title10ch210sec0.html.

- **An Act to Preserve Home Ownership and Stabilize the Economy by Preventing Unnecessary Foreclosure:** This Maine law can make a huge difference if a home goes into foreclosure. It was enacted after the subprime mortgage collapse in 2008 and provides trained counselors to consumers facing foreclosure. If the homeowners find themselves in court, the law allows borrowers to request a mediation session to try to work out a deal that could keep them in their home.

  The mediation addresses options such as restructuring and loan modification. The Bureau of Consumer Credit Protection is in charge of the pre-foreclosure counseling portion of this program, while the judicial branch operates court-sponsored mediation sessions.

For the full text of An Act to Preserve Home Ownership and Stabilize the Economy by Preventing Unnecessary Foreclosure, visit:

http://www.mainelegislature.org/legis/bills/bills_124th/chapters/PUBLIC402.asp.

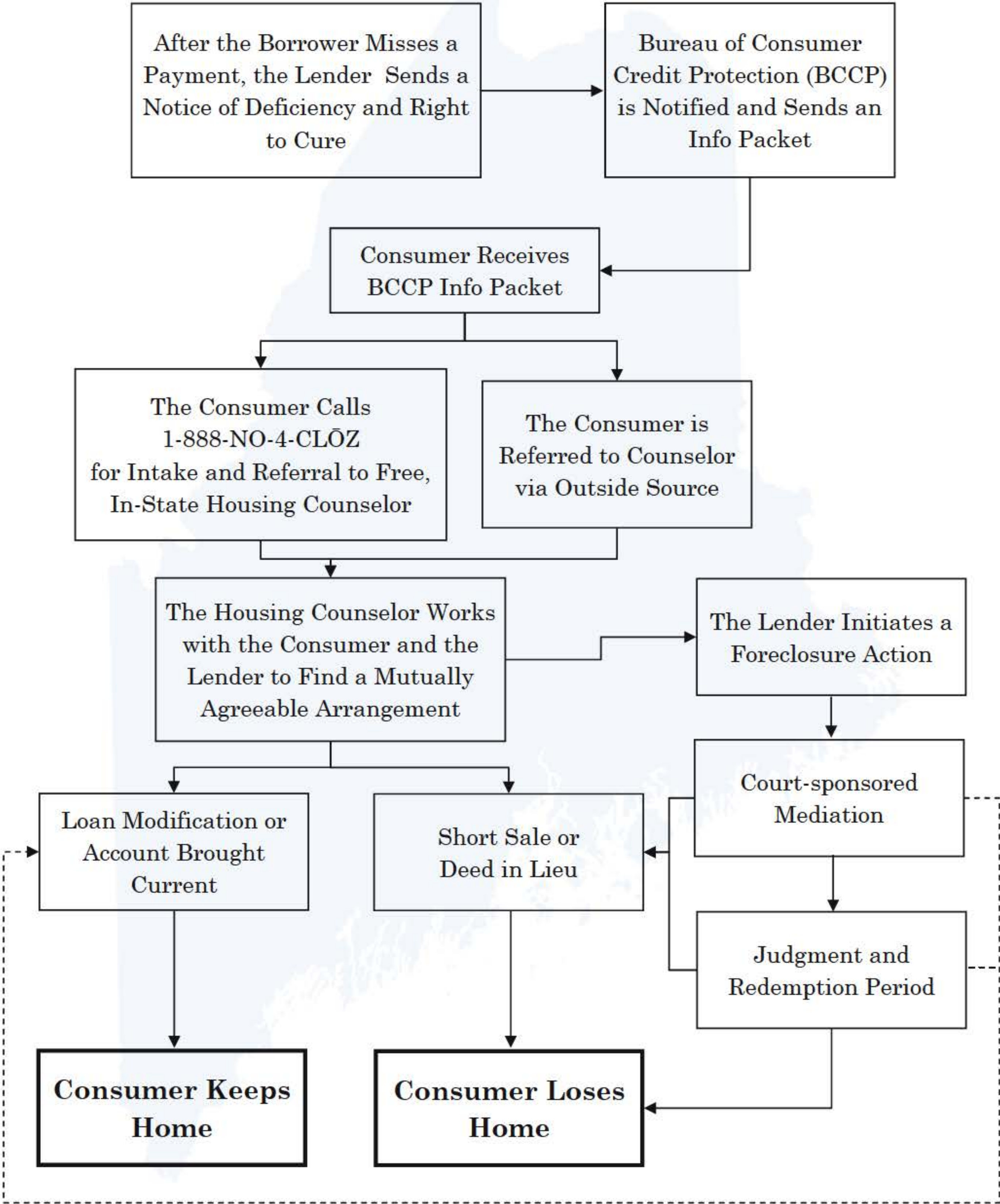
For more information about Maine's Foreclosure Prevention Program visit:

http://www.maine.gov/pfr/consumercredit/foreclosure_resources.html

Call Toll Free:

1-888-NO-4-CLŌZ (1-888-664-2569)

Maine's Foreclosure Process



Glossary of Mortgage Terms

Ability-to-Repay (ATR): An analysis of the borrower's ability to repay a mortgage loan using monthly debt-to-income ratios and other methods to ensure that applicant is able to repay the debt. New federal statues will require lenders to perform ability-to-repay calculations on most mortgage loans. *See **Debt-to-Income Ratios.***

Accrued Interest: Interest earned by the lender that has not been paid by the borrower.

Adjustable Rate Mortgage (ARM): A type of mortgage loan that can have its interest rate change annually after an introductory fixed rate period of usually three, five or seven years. The interest rate for an ARM is determined by adding a margin to an index such as LIBOR. Renewal caps establish the minimum and maximum range of rates over the life of the loan. The frequency of change, index, margin and caps are described in the promissory note.

Amortization: The liquidation of a debt by installment payments.

Annual Percentage Rate (APR): The total cost of credit expressed as a yearly percentage rate. The APR includes non-interest charges such as fees and points.

Annual/Lifetime Interest Rate Caps (on ARMs): *See **Adjustable Rate Mortgage.***

Application Fee: An upfront fee some lenders may charge for accepting and processing your mortgage application.

Back-End Ratio: *See **Debt-to-Income Ratios.***

Balloon Payment: A non-amortizing mortgage with a large payment due at maturity.

Broker: A person or company that arranges financing for borrowers and receives compensation for that service. Mortgage brokers do not lend their own funds; they deliver loans to mortgage lenders or banks for funding. Brokers are required to be registered with the NMLS and licensed by the State of Maine.

Cap: *See **Adjustable Rate Mortgage***

CFPB: The Consumer Financial Protection Bureau (CFPB) is a new federal agency tasked with providing protection to consumers who purchase financial products. The CFPB was established by the Dodd-Frank Act in response to the financial crisis that led to the Great Recession.

Closed-end Loan: A loan in which 100% of the total loan proceeds are disbursed at loan closing as opposed to multiple disbursements over time.

Closing Costs: All of the fees and charges necessary to close a mortgage loan excluding the down payment and funds required to establish escrow accounts. The lender is required to deliver a good-faith-estimate (GFE) of the closing costs no later than three days after receipt of a completed application.

Collateral: An asset pledged as security for a loan.

Commitment Letter: An official letter generated by the lender that offers mortgage financing to the loan applicant. The loan terms and conditions required to close the loan are described along with the commitment letter expiration date. Unlike a pre-approval letter, the commitment letter is a contract that obligates the lender to provide mortgage financing if the applicant meets all of the stipulated conditions before the expiration date.

Construction Loan: A construction loan is an "open-ended" line of credit used for the build-out phase of new home. Multiple disbursements take place as the home is constructed, a final large payment is due at maturity or the line of credit is automatically converted into a closed-end mortgage loan.

Conventional Mortgage: Mortgage loans that are not insured or guaranteed by a government agency are considered conventional loans. Fannie Mae, Freddie Mac and most portfolio mortgage loans are conventional loans.

Credit Bureau: *See **Credit Reporting Agency.***

Credit Life Insurance: This coverage (for a premium/fee) pays off the mortgage in the event of the death of an insured borrower.

Credit Reporting Agencies: Any person or company that engages in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties. The three largest agencies are Equifax, Experian and TransUnion.

Debt-to-Income Ratios: A fractional number used by lenders to gauge mortgage risk by dividing monthly debts by monthly income. Lenders use two types of ratios: the front-end-ratio includes the total housing payment of principal, interest, taxes and insurance, the back-end-ratio includes all other debt including the total housing payment. Conventional loans have maximum front-end-ratios of approximately 28% and maximum back-end-ratios of about 43%.

Deed: A deed is a legal instrument evidencing details of property ownership, or the transfer of ownership, of property. A warranty deed is a type of deed that provides a guarantee to the buyer that the seller has the right to transfer ownership.

Deed in Lieu (of Foreclosure): A deed instrument in which the debtor conveys all interest in the mortgaged property to the lender in order to avoid the standard foreclosure process. A deed in lieu of foreclosure will have the same negative effect on a borrower's credit as a standard foreclosure.

Delinquency: When a loan payment is made after the scheduled payment date, it is considered delinquent. Maine law provides a grace period of 15 days before a lender may charge a late fee or delinquency charge.

Down Payment: The fractional difference measured as a percentage between the loan proceeds and the sales price that the borrower contributes to a transaction. A larger down payment made by a borrower lowers the lenders risk.

Earnest Money Deposit: A cash payment provided by the buyer made payable to the seller that demonstrates a good faith willingness to proceed with the transaction. The earnest money deposit is held in escrow and is credited as a portion of the buyers' down payment at closing.

Equal Credit Opportunity Act (ECOA): The ECOA is a federal statute that outlaws credit discrimination on the basis of: race, color, religion, national origin, gender, marital status or age (provided the applicant has the ability to legally enter into a contract). This act also prohibits discrimination based on the fact that all or part of the applicant's income derives from a public assistance program.

Equity: The owners' net value of a property less the liabilities owed. A property with negative-equity has more debt owed than its value. *See **Loan-to-Value Ratio (LTV).***

Escrow Account: An account established by the lender to ensure that real estate tax and insurance billings are paid in a timely manner. Escrow accounts are mandatory for loans with high LTV ratios and may be established by lenders at any point by virtue of the mortgage agreement.

Fannie Mae (FNMA): Founded in 1938 during the Great Depression, the Federal National Mortgage Association (FNMA) is a government-sponsored enterprise (GSE) that has been under conservatorship by the US government since September 2008. Fannie Mae provides a guarantee of timely payment to investors who purchase securities collateralized with loans underwritten to FNMA's standards. FNMA is currently the largest mortgage lender in the United States.

FHA Mortgage: The Federal Housing Administration (FHA) is a US government agency that is part of the Department of Housing and Urban Development (HUD). The FHA is not a lender but instead provides mortgage insurance on loans made by approved lenders underwritten according to FHA guidelines.

FICO: The Fair Issac Corporation (FICO), a publicly traded analytical firm hired by credit reporting agencies and lenders to gauge the credit risk of loan applicants. FICO uses a highly advanced proprietary algorithm to assign a credit score that ranges between 300 and 850 points.

Finance Charge: The total cost of credit including interest and fees, but not charges incurred in a comparable cash transaction.

Forbearance Agreement: A negotiated act of restraint by the lender to refrain from foreclosure in exchange for an agreement with the borrower to bring the debt current.

Foreclosure: The legal process of obtaining and selling a mortgaged property to recover the unpaid debt owed to the lender following default of the note by the borrower.

Freddie Mac (FHLMC): Founded in 1970 to provide competition for FNMA, the Federal Home Loan Mortgage Corporation (FHLMC) is a government-sponsored enterprise (GSE) that has been under conservatorship by the US government since September 2008. Freddie Mac provides a guarantee of timely payment to investors who purchase securities collateralized with loans underwritten to Freddie Mac's standards. Freddie Mac is currently the second largest mortgage lender in the United States.

Front-end ratio: *see **Debt-to-Income Ratios.***

Ginnie Mae: Founded in 1968 as a government corporation, the Government National Mortgage Corporation (GNMA) is the only entity that provides a "full faith and credit" guaranty of payment by the US government. GNMA guarantees FHA and VA loans.

Good Faith Estimate (GFE): The Real Estate Settlement Procedures Act (RESPA) requires that lenders provide this form to the consumer no later than three days after receipt of a *completed* mortgage application, the GFE provides the consumer with an estimate of loan terms and closing costs that allows the consumer to compare charges between lenders.

GSE: GSE is the acronym for Government Sponsored Enterprise. *See **Fannie Mae** and **Freddie Mac.***

Grace Period: A period of time between the monthly payment due date and the date by which a late fee may be assessed. Maine law provides a grace period of 15 days before a creditor may charge a late fee.

HECM: Home Equity Conversion Mortgage. *See **Reverse Mortgage.***

Home Equity Line of Credit (HELOC): A type of open-ended line of credit loan that allows a borrower to control multiple disbursements of principal over a finite period of time referred to as the draw period. After the drawn period has expired, the HELOC will require amortized payments of principal and interest, usually a 10-year term.

Home Equity: *See **Equity.***

HUD-1 Settlement Statement: Housing and Urban Development Form-1, a standard form required by the Real Estate Settlement Procedures Act (RESPA) that details all of the costs associated with a mortgage loan transaction or refinance. RESPA requires that the HUD-1 be provided 24 hours prior to closing. The good-faith-estimate of closing costs (GFE) must closely mirror the HUD-1. *See **Good Faith Estimate (GFE).***

Index: *see **Adjustable Rate Mortgage (APR).***

Late Fee: A fee imposed by lenders that is a percentage of the monthly principal and interest payment, 5% for conventional loans and 4% for government insured loans. *See **Grace Period.***

LIBOR: The London Interbank Offered Rate (LIBOR) is an average of interest rates offered between the leading banks of London. LIBOR is the most commonly used index for adjustable rate mortgages in the US. *See **Adjustable Rate Mortgage (ARM).***

Lien: A form of security interest granted over property to secure the repayment of debt. Lien literally means, "to bind."

Line of Credit (LOC): *See* ***Home Equity Line of Credit (HELOC).***

Loan Servicer: A company that collects a consumer's monthly payment and forwards the principal and interest to the holder of the mortgage note. The servicer collects and forwards escrow payments. The right to service a mortgage loan is often sold by lenders soon after closing. RESPA requires that lenders provide a Servicing Disclosure Statement disclosing the probability that loan servicing will be sold.

Loan-to-value Ratio (LTV): The total amount of the loan divided by the value (or sales price) of the collateral measured as a percentage. The lower the LTV, the lower the risk for the lender. Mortgage loans with higher LTVs will have higher APR's.

Manufactured Home: A home constructed in an assembly facility and delivered to a home site.

Margin: *see* ***Adjustable Rate Mortgage.***

MERS: Mortgage Electronic Registration System, MERS is a private corporation that owns an electronic registry that is intended to efficiently track the ownership of mortgage loans and servicing rights between lenders. Most Fannie Mae and Freddie Mac mortgage loans have MERS named as their nominee.

Mortgage: A mortgage is a type of a "security instrument," the word mortgage literally means death-pledge. The mortgage is a contract between the mortgagor (borrower) and the mortgagee (lender) that secures a promissory note. The mortgage is actually given by the borrower to the lender; it is a contract that stipulates what is being provided as collateral for the note and the responsibilities of the involved parties. The mortgage describes lender remedies (foreclosure) in the event of borrower default. Currently, the most common conventional mortgage document used in Maine is FNMA Form 3020.

Mortgage Servicer: *See* ***Loan Servicer.***

Negative Amortization: When the scheduled monthly payment is not sufficient to satisfy the monthly accrued interest and reduce the principal balance negative amortization results in the form of a growing loan balance as opposed to a declining loan balance.

Negative Equity: *see* ***Equity.***

Note: *See* ***Promissory Note.***

Odd Days Interest: Mortgage loan payments are due on the first day of the month, since closings cannot always happen on the last day of the month; lenders require that borrowers pay the per-diem interest that will accrue between the closing date and the last day of the month. Odd -days interest is not an additional charge assessed by lenders.

Origination Fee: A fee charged by most lenders at closing to offset the costs of origination, the origination fee is commonly based on a percentage of the loan amount.

Per Diem Interest: The amount of interest accrued each day by the lender owed by the borrower. Per Diem interest is calculated by multiplying the principal balance of the loan by the interest rate and dividing the result by either 360 or 365 depending on the accrual method.

Points: Points are a form of pre-paid interest that results in a discount of the interest rate. One point equals one percent of the loan amount. Points must be included in the APR.

Portfolio Mortgage Loan: A mortgage loan that retained by the lender as opposed to being sold on the secondary market to investors.

Principal Balance: The total non-interest amount owed on a loan.

Private Mortgage Insurance (PMI): Insurance payable to the lender after borrower default following foreclosure. PMI is required when the LTV is above 80%. PMI insurance premiums are priced according risk, the LTV and FICO score are the main factors. PMI charges must be included in the APR.

Promissory Note: A promissory note is a financial instrument evidencing the creation of debt. The "maker" of the note is the borrower; the "payee" is the creditor. The maker promises timely repayment to the creditor based on the terms and conditions specified in the note such as the principal amount of the loan, the interest rate, the monthly payment and the term (maturity date). The mortgage acts as security for the note. Currently the most common note used in Maine is FNMA Form 3220.

Qualified Mortgage (QM): A new type of mortgage loan that is underwritten to standards required by the Dodd-Frank Act and rules established by the CFPB. QM mortgages rules are intended to eliminate the risky lending practices that lead to the Great Recession and to provide consumers with increased affordability.

Rate Lock: An agreement between the lender and the borrower that locks a mortgage rate for a fixed period of time. Lock periods typically range from 15 to 90 days. Lenders may charge a lock fee, the longer the lock period the higher the fee. A loan that is not locked is considered "floating."

Ratios: *See* ***Debt-to-Income Ratios.***

Refinance: The process by which a borrower replaces their current mortgage financing with new financing. In a cash-out refinance the borrower converts equity into cash.

Real Estate Settlement Act (RESPA): The Real Estate Settlement Procedures Act of 1974 is a federal law requiring creditors, real estate professionals and mortgage servicers to provide consumers with greater and more timely information on the nature and costs of the real estate settlement process. RESPA bans referral fees and kickbacks between real estate professionals and requires the use of the HUD-1 Settlement Statement and the GFE.

Reverse Mortgage: A program in which homeowners 62 or older receive funds in exchange for equity in their home.

Right of Rescission: A consumer right provided by the Truth-in-Lending Act that allows borrowers a three-day cooling off period during which they are able to rescind (cancel) a loan transaction.

Secondary Market: A financial market whereby lenders pool individual mortgages into mortgage backed securities for sale to large investors.

Settlement Costs: The total costs associated with buying or refinancing including appraisal and escrows.

Settlement Cost Booklet: A booklet provided by the CFPB Department of Housing and which includes detailed descriptions of the home-buying process and real estate settlement services.

Short Sale: The sale of a mortgaged property that required negotiation with the lender due to negative owner equity.

Tax transcripts: A record of tax filings provided by the IRS used by lenders to verify income disclosed on a mortgage application. IRS form 4506 authorizes the release of borrower tax records. A record of a potential borrower's reported income and expenses for the last two years. During the mortgage approval process most lenders require a tax transcript from the IRS.

Title Insurance: Insurance designed to protect the lender and/or owner from loss related to a title defect on the property.

Title Search: An examination of public records performed by an attorney or a title agent to research the history of ownership, restrictions and events of real property.

Truth in Lending Act (TILA): Enacted in 1968, the Truth-in-Lending Act is designed to promote the informed use of credit by requiring lenders to provide standardized forms disclosing the costs associated with borrowing. Lenders are required to provide a Truth-in-Lending Disclosure (TIL) at the point of application and prior to closing in order to document the true cost of credit. *See* ***Annual Percentage Rate (APR) and Finance Charge.***

Underwriting: A vital step in the processing of a mortgage loan request where a determination is made by either an underwriter, or a computer program, indicating that the loan request meets standards warranting approval.

Verification Forms: Forms required by the lender and completed by a third party to evidence information provided by an applicant:

- **Verification of Deposit (VOD):** A form that may be sent by a lender to verify a potential borrower's savings and the source of their down payment. Consumers should be ready to explain any large deposits; the lender will want to be sure that large deposits are not other loans that will need to be repaid.

- **Verification of employment (VOE):** During the verification stage of the mortgage approval process lenders will verify a potential borrower's employment to be sure that they work where they say that they work. A potential borrower should tell their employer's HR department to expect this form so it can be completed quickly and returned to the loan processor.

- **Verification of Rent (VOR):** A form sent during the prequalification stage of the mortgage approval process. A rental verification form confirming a potential borrower's monthly rental expenses, length of time at their current address, and whether rent payments have been made on time will be sent to the borrower's landlord. The lender may be willing to accept copies of cancelled rent checks in lieu of the verification of rent form.

OMB Approval No. 2502-0265

Good Faith Estimate (GFE)

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

Purpose

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

Shopping for your loan

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

Important dates

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

Summary of your loan

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

Escrow account information

Some lenders require an escrow account to hold funds for paying property taxes or other property-related charges in addition to your monthly amount owed of $☐.
Do we require you to have an escrow account for your loan?
☐ No, you do not have an escrow account. You must pay these charges directly when due.
☐ Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.

Summary of your settlement charges

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

Understanding your estimated settlement charges

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

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

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

Instructions

Understanding which charges can change at settlement

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

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

Using the tradeoff table

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

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

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

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

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

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

Using the shopping chart

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

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

If your loan is sold in the future

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

Federal Truth-In-Lending Disclosure Statement

Lender/Broker: Loan Number: TIL Date:
Borrower(s): Property Address:

☐ Initial Disclosure estimated at time of application ☐ Final Disclosure based on contract terms

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you assuming the annual percentage rate does not change.	The amount of credit provided to you or on your behalf as of loan closing.	The amount you will have paid after you have made all payments as scheduled assuming the annual percentage rate does not change.
%	$	$	$

Your Payment Schedule Will Be:

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

* Includes mortgage insurance premiums, excludes taxes, hazard insurance and flood insurance.

☐ **Demand Feature:** This loan transaction has a demand feature.
☐ **Required Deposit:** The annual percentage rate does not take into account your required deposit.
☐ **Variable Rate Feature:** Your loan contains a Variable Rate Feature. Disclosures about the Variable Rate Feature have been provided to you separately.

Security Interest: You are giving security interest in:
☐ the goods or property being purchased. ☐ real property you already own.

Filing or Recording Fees: $

Late Charge: If a payment is more than days late, you will be charged $ / %

Prepayment: If you pay off your loan early, you
☐ may ☐ will not have to pay a penalty.
☐ may ☐ will not be entitled to a refund of part of the finance charge.

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

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

This loan transaction requires the following insurance:
☐ Hazard Insurance ☐ Flood Insurance ☐ Credit Insurance ☐ Credit Life Insurance ☐ MMI ☐ PMI

Borrower(s) may obtain hazard and flood insurance through any person of his/her choice, provided said carrier meets the requirements of the Lender. If Borrower desires Property Insurance to be obtained through the Lender's designated agency, the cost will be set forth in a separate insurance statement furnished by the Lender.

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

Assumption: Someone buying your house:
☐ may ☐ may, subject to conditions, ☐ may not assume the remainder of your loan on the original terms.

See your contract documents for additional information regarding nonpayment, default, right to accelerate the maturity of the obligation, prepayment rebates and penalties, and the Lender's policy regarding assumption of the obligation.

You are not required to complete this agreement merely because you have received these disclosures or signed a loan application.

☐ All dates and numerical disclosures except late payment disclosures are estimates. means an estimate.

"The undersigned hereby acknowledge receiving and reading a completed copy of this disclosure along with copies of the documents provided. The delivery and signing of this disclosure does not constitute an obligation on the part of the lender to make, or the Borrower(s) to accept, the loan as identified."

Read, acknowledged and accepted this day of By:

Borrower Date Co-borrower Date

Publications

• Downeaster Common Sense Guide to Student Loans (2012)•

A comprehensive guide for the prospective college student on the world of student loans. This book covers loan types (public and private), the FASFA process, words to the wise on how much debt is manageable per your choice of academic major, how to apply for scholarships and grants, and the rights of a student debtor in the collection process.

• Downeaster Guide to Elder Financial Protection (2010)•

The definitive "how-to" book for Maine seniors who are interested in stopping unwanted telemarketing calls, pre-approved credit offers, and "junk mail." This guide has sections on how to stop identity theft and how to protect yourself against elder financial exploitation as well as a lengthy listing of toll-free consumer protection numbers available specifically to help elderly clients.

• Downeaster Guide: Consumer Credit 101 (2009)•

Gain an understanding of consumer credit through this booklet. Learn about credit reports and credit scores, auto buying and financing, responsible credit card usage, how to comparison shop for credit, and your rights in a debt collection action.

• Downeaster Guide to Consumer Rights (2006)•

This guide provides an extensive listing of your rights in a variety of consumer transactions involving credit reports, debt collectors, mortgage companies, loan brokers, non-bank ATMs, and more!

These guides are free to Maine residents. Out-of-state orders are $6.00 each, or at a volume discount of $4.00/copy on orders of 50 or more (shipping included).

To order, call 1-800-332-8529 (in-state) or 1-207-624-8527 (outside of Maine).

Consumer Tools

The Fannie Mae 1084 form: This form will help you calculate your income in the same way an underwriter might. This is an important part in determining what you can afford for a home, and can save you time and effort.

www.fanniemae.com/content/guide_form/1084.pdf

How to access your free credit report: You can get up to 3 reports/year, one from each company that takes part in the program (Equifax, Transunion, and Experian). To get your free credit report, you can either call 1-877-322-8228 or order them online at:

www.AnnualCreditReport.com

The NMLS database can help consumers determine whether or not a mortgage loan originator is actually legitimate and licensed.

www.nmlsconsumeraccess.org/

There are many programs available to consumers to help in purchasing a home.

To find information on these programs, visit:

Maine State Housing Authority: www.mainehousing.org

Veteran Affairs Loans: www.benefits.va.gov/homeloans

USDA Loans: www.rurdev.usda.gov/ME_Housing.html

FHA Loans: portal.hud.gov/hudportal/HUD?src=/federal_housing_administration

Maine Bureau of Consumer Credit Protection

Foreclosure Prevention Hotline: 1-888-NO-4-CLŌZ (1-888-664-2569)
Toll Free Hotline (in Maine Only): 1-888-322-8529 — Office Number: 207-624-8527
www.Credit.Maine.gov

Consumer Resources

Resource	Phone
Maine Bureau of Consumer Credit Protection	1-800-332-8529/ TTY Maine Relay 711
Maine Bureau of Insurance	1-800-300-5000/ TTY Maine Relay 711
Maine Bureau of Financial Institutions	1-800-965-5235/ TTY Maine Relay 711
Maine Office of Securities	1-877-624-8551/ TTY Maine Relay 711
Maine Office of Professional and Occupational Regulation, including these home-related boards: Plumbing; Electrical; Surveyors; Real Estate Commission; Real Estate Appraisers; Architects; Interior Designers; Manufactured Housing; Oil and Solid Fuel Technicians; Propane and Natural Gas Technicians	1-207-624-8603/ TTY Maine Relay 711
Maine Office of the Attorney General (Consumer Hotline)	1-800-436-2131/TTY 1-207-626-8865
Finance Authority of Maine (FAME)	1-800-228-3734/TTY 1-207-626-2717
Maine Public Utilities Commission (Consumer Assistance Division)	1-800-452-4699/TTY 1-800-437-1220
Maine State Housing Authority (Maine Housing)	1-800-452-4668/TTY 1-800-452-4603
United States Bankruptcy Courts—Maine	
* Portland	207-780-3482/TTY 1-207-780-3656
* Bangor	207-945-6348/TTY 1-207-945-0376
Veterans Administration Loans / Veterans Affairs	1-800-729-5772
Federal Housing Administration (FHA)	1-800-225-5342/TTY 1-202-708-1455
U.S. Department of Housing and Urban Development	1-202-708-1112/TTY 1-202-708-1455
Rural Development *Formerly the Farmers Home Administration (FMHA)*	1-800-414-1226
Consumer Financial Protection Bureau (CFPB) *A federal agency that regulates federally-chartered Banks*	1-855-411-2372/TTY 1-202-435-9742
National Credit Union Administration (NCUA) *A federal agency that regulates federally-chartered credit unions*	1-800-755-1030
Federal Reserve Consumer Hotline	1-888-851-1920/TTY 1-877-766-8533

NOTES

This book is not intended to be a complete discussion of all statutes applicable to consumer credit. If you require further information, consider contacting our agency or an attorney for additional help.

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The State of Maine Bureau of Consumer Credit Protection

WELCOME TO
MAINE
THE WAY LIFE SHOULD BE

OPEN FOR BUSINESS

POINTS CT

APPRAISAL LN

APR RD

TOWN LINE

EQUITY