“We Can Cut Your House Payments in Half!”

You may have seen advertisements for loans that promiseto reduce your house payments or offer you large sums of cash if you refinance your home. You should be aware that sometimes the claims made in advertisements do not tell the whole story.

Whether obtaining a loan to purchase or refinance your home or other property, it is more important now than ever to know all of the facts about how much the loan will cost you and how it is to be repaid. Failure to do so can result in the loss of your home or other property through foreclosure, meaning the lender may take your property if the loan is not repaid according to the terms of the contract you agreed to when you obtained the loan.

Important aspects of obtaining a loan may be overlooked, not discussed with you, or even purposely or inadvertently made to seem inconsequential. However, these details should be important to you as they could affect your ability to make the required payments or contain unpleasant and costly surprises when you try to pay the loan off. The following items should be carefully considered when choosing a home loan.

Fixed Rate or Adjustable Rate?

Mortgage loans are generally available with either fixed interest rates or adjustable interest rates. A true fixed rate loan has an interest rate that remains the same for the full term of the loan. The amount that you pay toward the principal (the actual amount you borrowed) and interest (the amount you are charged for the loan) also remains the same. The only aspect of your payment that can change is the amount withheld for real estate taxes, as well as homeowner’s insurance or private mortgage insurance that you may have your lender pay for you. The term of the loan can be for 10, 15, 20, 30, 35 or even 40 years. Most fixed rate loans are fully amortized, which means they are completely paid off at the end of the term. However, some fixed rate loans may include balloon payments (see below).

Adjustable rate loans are more complex. This type of loan has an interest rate that can increase or decrease. Some loans adjust once a year, some each six months, but some can change every month after the first month. There are adjustable rate loans that have different payment options that allow you to choose how much you want to pay each month, but you must be very careful. If you do not pay enough each month to cover the interest due, your loan balance will increase instead of decrease.

There are also “fixed payment” loans with adjustable rates as well as many other types of adjustable rate loans. With any adjustable rate loan, you should fully understand how often and how much the interest rate and payments can change and whether you can end up owing more on your home loan instead of less. If you end up owing more on your home loan and cannot make the increased payments, you may not be able to refinance or sell your home to prevent losing it through foreclosure.

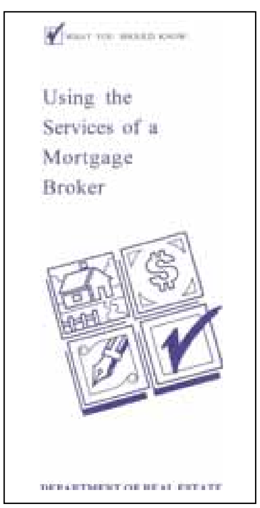
Balloon Payments

A fixed rate, fully amortized loan is paid off by the end of the term. In loans with interest-only payments, the monthly payment is only applied to the interest due – not the principal. Although the monthly payment may be lower, interest-only loans may require a “balloon payment” to be paid at the end of the loan term. The balloon payment is usually the full amount that you initially borrowed, a substantial sum! If you cannot pay the balloon payment when it is due or cannot obtain another loan with more costs and fees to cover the balloon payment, you may lose your home through foreclosure. Be very careful before agreeing to a loan with a balloon payment, unless you know that you will have the money needed to make the final payment when it becomes due.

Interest Rates, Points and Fees

Interest rates, points (loan origination fees) and other fees can vary from broker to broker and lender to lender and can be affected by your credit, income, or other factors. You are urged to shop around with several brokers and lenders before you decide. Within three days of applying for a loan, the law entitles you to a “Mortgage Loan Disclosure Statement” or “Good Faith Estimate” of the loan terms, costs and expenses. Read this statement carefully and ask questions about any information that is different from what you were told or that you do not understand. Insist on full and complete answers to your questions. If the terms or costs of the loan change, the broker or lender must tell you at the time they become aware of the changes. The disclosure statement is not a commitment to make a loan to you and does not guarantee the interest rate. If a broker or lender offers to “lock” in an interest rate for you, be sure to insist that you get a written and signed agreement. There are several ways that you can pay the points and fees that you will be charged:

- You can pay them at the time of closing, usually in the form of a certified check, and/or



To receive a free copy of “Using the Services of a Mortgage Broker” complete the shipping information below and submit this request to:

Department of Real Estate
ATTN: Book Orders
P.O. Box 187006
Sacramento, CA 95818-7006

SHIPPING INFORMATION

NAME		
ADDRESS		
CITY	STATE	ZIP CODE
DAYTIME PHONE #		

- You may be able to include the points and fees in the loan amount, and/or
- You can pay a higher interest rate to cover the cost of the points and fees. In this case, the lender pays a "rebate" to the broker. Be sure to ask a broker if they are receiving any type of rebate from the lender and insist on an explanation.

A broker or lender must disclose to you all of the money they are being paid for a loan, including the amount you pay to the broker directly and/or the amount the lender pays to the broker in the form of a rebate. Remember, no matter where the money comes from, you are paying it one way or another.

Advance Fees

"Advance fees" are fees charged by a broker assisting you in the process of obtaining a loan for services not yet performed, i.e. in advance. Fees for property appraisal and credit report(s) are not considered to be advance fees. Any broker that charges advance fees must use an agreement or contract approved by the Department of Real Estate (DRE). The broker must hold the advance fees collected from you in trust and only expend them for your benefit for the promised services. If you are asked to pay a fee in advance, other than for a property appraisal or credit report(s), ask for a copy of the DRE-approved advance fee agreement and check with the DRE to be sure it has been approved.

Predatory Lending

The term "predatory lending" encompasses a variety of abusive lending practices. Unsophisticated borrowers and homeowners in certain communities, particularly the elderly and/or minorities, are the most common victims. Often, false promises and deceptive sales tactics convince a borrower to sign a loan contract before the borrower has the chance to review the paperwork and do the math necessary to make an informed decision. Beware of:

- High pressure sales tactics asking you to sign papers before you have had a chance to review and understand them.
- Up-front fees and high interest rates in comparison with other lenders.
- Salespersons with backgrounds similar to yours who attempt to gain your trust and lull you into a sense of false security.
- Offers that sound too good to be true (they usually are).

Anytime you use your home as security for a loan, you risk losing your home through foreclosure if you cannot make the payments.

Prepayment Penalties

Some loans contain a requirement for you to pay a "prepayment penalty" if you pay the loan off early and/or refinance or sell the property. Brokers and lenders are required to advise you if the loan may contain a prepayment penalty. It is important to ask about penalties when discussing the loan with the broker or lender. Be sure to review the mortgage loan disclosure statement and/or good faith estimate to confirm the information provided to you. Prepayment penalties can be very expensive and affect your ability to refinance or pay off the loan.

Reverse Mortgages

Reverse mortgages are available only to homeowners 62 years of age and older. They are designed to provide a line of credit and/or monthly income without the requirement of making monthly payments, hence the term "reverse mortgage." A reverse mortgage can allow senior citizens to stay in their home when it may otherwise be unaffordable. Interest rates for reverse mortgages are typically adjustable and, because no payments are required, the interest that accrues is added to the principal amount of the loan. Because of the usually high initial costs of these loans and because the terms can be more complex than an ordinary mortgage, it is critical that you understand all of the terms and make the correct decision before entering into a loan contract. For this reason, some programs require that you speak to an independent reverse mortgage counselor before getting the loan. You may also want to speak to family members or others that you trust. A reverse mortgage must be repaid when the last surviving borrower dies or moves away. The loan can be refinanced, the property can be sold by you or your heirs, or other assets can be used to pay it off. Any remaining equity in the home would belong to you or your heirs. Since senior citizens can be prime targets of predatory lenders and other scammers, be wary of mail or telephone solicitations or offers by estate planners to put you in touch with a reverse mortgage lender and asking you to pay substantial fees for that service.

For More Information

The DRE offers additional information on these topics in the following publications: "Using the Services of a Mortgage Broker," "Reverse Mortgages – Is One Right for You?," and "Protect Yourself in the Loan Process;" available on the DRE website **www.dre.ca.gov** under **Consumers**. If you don't have access to the Internet, you may request a free copy of the publications by submitting the tear-off coupon portion of this handout to the DRE.

Questions

If you have any questions, please contact:

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