Module 4.1
Study Guide

HUD Housing Counselors Training

U.S. Department of Housing and Urban Development

Table of Contents

Module 4.1 Homeownership/Pre-Purchase

Module Introduction

Module Introduction

To assist clients in preparing for homeownership, housing counselors should understand the homebuying process, including financial components, homeowner responsibility, and mortgage regulations.

In this module, you'll learn how to evaluate clients' home purchase readiness. You'll also learn about professionals involved in the selection and purchase of a home and the financing process. Then, to help clients protect themselves against abusive practices, you'll examine various mortgage documents and regulations in the lending industry. Lastly, you'll learn how clients can protect their property and investment by purchasing homeowners insurance.

Lesson Objectives

By the end of this module, you'll be able to:

1. Evaluate a client's readiness to purchase a home by discussing their income, credit, savings, and homeowner responsibility.
2. Demonstrate knowledge about the process of selecting and purchasing a home and the team of professionals involved.
3. Comprehend the financing process, including choosing a lender and understanding loan products.
4. Evaluate a client's completed Uniform Residential Loan Application (Form 1003) for any general deficiencies.
5. Apply knowledge of mortgage regulations and lender disclosures, including the Real Estate Settlement Procedures Act (RESPA), Truth in Lending Act (TILA), TILA-RESPA Integrated Disclosure (TRID) and Equal Credit Opportunity Act (ECOA), to a discussion about how these laws relate to a client's specific circumstances.
6. Apply knowledge of common abusive lending practices and loan scams to help the client avoid similar situations.
7. Explain insurance terms and concepts of at least three types of insurance policies to identify the risk mitigated by each type of insurance policy.

Pre-Purchase Process

Pre-Purchase Process

In pre-purchase counseling, you can start by presenting nine steps that make up the homebuying process. You work through the first three steps with your clients; for the remaining steps, you prepare them to collaborate with other homebuying professionals.

Homebuying Process

Housing counselor directly assists clients to carry out these steps:

- ☑ Determining if homeownership is right for the client
- ☑ Figuring out how much the client can afford
- ☑ Helping clients understand their rights

Housing counselor prepares clients to work with a homebuying team to carry out these steps:

- ☑ Shopping for a home
- ☑ Making an offer
- ☑ Obtaining financing
- ☑ Getting a home inspection
- ☑ Purchasing homeowners insurance
- ☑ Closing on the home

Purchase Readiness

Initially, you want to gather essential client information by asking specific questions. The questions should give you an understanding of the client's income, expenses, spending habits, home values, and use of credit. This information will help you complete the first two steps to determine if homeownership is right for the client and how much the client can afford.

Let's look at questions to ask clients and why to ask them.

Do you foresee the need to change jobs or relocate in the next several years?

Homeowners need a consistent income to qualify for a **mortgage** and make monthly payments. Also, to ensure that homeowners can recoup the homebuying and selling costs, they should consider remaining in the home they purchased for several years. Homeownership may not be the ideal short-term plan for clients who may need to move in the near future for work or other life situations

Mortgage

A debt secured by collateral of a real estate property. Used to make real estate purchases without paying the entire value of the purchase up front. If the borrower does not meet the obligations of the loan, the lender has the right to foreclose.

Are you willing to properly maintain the home and make repairs as needed?

Homeowners take care of all home repairs, maintenance, and yard work either by doing it themselves or hiring contract workers. Homeowners should be willing to accept these new responsibilities, which require time and money. To demonstrate readiness, a client should be willing to take steps such as learning basic home repair skills, adding a budget item for home repairs and home maintenance projects, or creating a maintenance plan for major household systems. A housing counselor can assist a client to create an adjusted budget and maintenance plan.

Do you have a record of paying your bills and debts on time?

When homeowners do not make mortgage payments, they risk **foreclosure**. It is best if homeowners establish the habit of paying bills on time before purchasing a home.

Recall the tips for improving credit scores discussed in Module 1.2. If you have clients with poor credit histories, recommend they take steps to improve their scores before continuing in the homebuying process.

Foreclosure

A legal process in which mortgaged property is sold to pay the loan of a defaulting borrower. Foreclosure laws are based on the statutes of each state.

Is your credit score currently above 640?

Homebuyers with higher credit scores will typically qualify for better mortgage terms. Though clients with scores below 640 may have financing options, the cost to obtain a mortgage may be more expensive. In addition to products insured by the Federal Housing Administration, or FHA, some lenders have introduced programs for **first-time homebuyers** and conventional mortgage products for borrowers with lower credit or limited credit.

First-Time Homebuyer

An individual who has not owned a primary residence for at least three years prior to purchasing a home. This includes a single parent or displaced homeowner who has only owned with a spouse or former spouse. A married couple is considered a first-time homebuyer if either spouse meets the criteria.

Due to increased credit risk, they are also subject to mortgage options such as **subprime loans**, which offer higher interest rates and result in more expensive monthly payments. Clients will need to consider whether or not they want to pay the additional costs.

Higher payments could cause financial problems for homeowners over time. If a client is not prepared to pay additional costs, it may be in their best interest tocontinue to rent while improving credit habits to raisethe credit score before moving forward with purchasing a home.

Subprime Loan

A type of mortgage with less stringent lending and underwriting terms and conditions, usually offered to borrowers with blemished or limited credit histories. Due to the increased credit risk, subprime loans carry higher interest rates than prime loans.

Do you have enough money in savings for a down payment, closing costs, and other fees?

In order to purchase a home, potential homeowners need to have sufficient savings to cover down payments (up to 20% of the home price), **closing costs**, other fees incurred in the purchase process, initial home repairs and utility charges, and personal monthly financial obligations. Recall from Module 2.1 the components of upfront costs associated with purchasing a home.

Clients without sufficient savings may be able to take advantage of certain loans that allow down payment funds to come from other sources. Sources may include gifts from family or friends or down payment assistance from a homebuying program. Refer to the list of Down Payment Assistance Program Resources, which will be provided at a later point in this sub-module, for more information.

Closing Costs

Fees for final property transfer that are not included in the price of the property. Typical closing costs can include loan origination fees, discount points, appraisal fee, survey, title insurance, legal fees, real estate professional fees, prepayment of taxes and insurance, etc. While closing costs often range from 3 to 4% of the purchase price of the home, they can be lower or higher, depending on geographic region or loan type.

Are you willing to abide by standards established by a community association?

Homeowners may be part of communities or homeowner associations, or HOAs, that have established rules and regulations. These are aimed at making the community an enjoyable place to live, protecting residents, and sharing expenses for common services. Homeowners must be willing to abide by such rules and regulations.

Are you willing to adjust your budget and spending habits?

Homebuyers need to include additional expenses in their budgets related to buying and maintaining a home. With this in mind, clients may need to adjust their spending habits in order to afford those expenses. Housing counselors can assist clients to create new budgets that include guidelines for adjusted spending habits.

Do you have the ability to make a mortgage payment every month in addition to other debt payments and living expenses?

Debt-to-income ratios are used to determine if potential homeowners will have enough money to make their monthly payments in addition to other financial obligations. Recall from Module 2.1 the method for calculating a client's debt-to-income ratio.

> **Debt-to-Income Ratio**
>
> A rate that calculates a borrower's total monthly debt, including housing and other debt obligations, as a percentage of gross monthly income. Frequently used by lenders to qualify borrowers for a mortgage. Also called a back-end ratio.

Is your annual income equivalent to at least a third of the average home price in the desired neighborhood?

Clients can roughly estimate how much they can pay to purchase a home by multiplying their annual **gross income** by three. Recall from Module 2.1 how to determine annual and monthly income for clients with various pay schedules.

> **Gross Income**
>
> Money earned before taxes and other deductions. May include income from self-employment, rental property, alimony, child support, public assistance payments, and retirement benefits.

Have you previously owned a home?

First-time homebuyers, defined as those who have not owned a home for at least three years, may be eligible for homebuying programs with down payment assistance. For previous homeowners, it is important to ask for details, as clients who lost a home due to an economic hardship event may be eligible for special programs.

Foreclosures, short sales, and deeds-in-lieu can significantly lower credit scores. Homebuyers with these items on their credit profiles may have to wait several years after resolving the situation with their previous home before they can qualify for a new mortgage. See Module 5.3 for more information about foreclosures, short sales, and deeds-in-lieu.

FHA-Insured Loans, Down Payment Assistance, and Homebuying Programs

Clients who are considering homeownership but do not qualify for conventional mortgages should inquire about an FHA-insured loan, which could be good for those who:

- Have limited funds for a down payment and closing costs.
- May not qualify for a conventional mortgage loan due to flawed credit history, bankruptcy, or high debt-to-income ratios.

More Tips: Making Homeownership More Affordable

- Refer to Module 2.2 for detailed information about benefits and protections associated with FHA loans.
- Encourage your clients to attend a Homebuyer Education Workshop for more information.
- Check if your clients are eligible to apply for a down payment assistance or homebuying program, which can make homeownership more affordable.

Down Payment Assistance Program Resources

HUD Homeownership Assistance by State

Select your state on the "State Information" page. Select the link to "Learn about Homeownership" on your state page, then find "Assistance Programs" such as Homeownership Assistance: California.

State department of community affairs, like the New Jersey Department of Community Affairs)

Local or state Public Housing Authority like Atlanta Housing.

Local or state housing divisions, for example , Colorado Department of Local Affairs, Housing Division.

Community action agencies or other nonprofits, including Habitat for Humanity)

Department of Veterans Affairs, for example VA Benefits: Home Loans)

Government-sponsored bank cooperatives like Federal Home Loan Bank), among others.

Knowledge Check 1

Determine if the following client descriptions indicate whether the client is ready to buy a home or may not be ready to buy a home. Match options A or B with the appropriate client description.

A. Ready to buy a home
B. May not be ready to buy a home

___ 1. Is interested in learning how to do home repairs

___ 2. May need to relocate to live closer to an aging parent in the next year or two

___ 3. Earns an annual gross income of $26,000 in a region where the average home price is $108,000

___ 4. Paid bills late four times in the last year

___ 5. Earns an annual gross income of $39,000 in a region where the average home price is $98,000

___ 6. Has credit score of 700

___ 7. Changed jobs three times over the past two years, switching from administrative services to customer service to retail

Knowledge Check 2

Which factor is best for housing counselors to use when determining how much a client can afford to spend on purchasing a home?

A. Debt-to-income ratios
B. Annual gross income
C. Savings
D. Options A, B, and C
E. None of the above

Helping Clients Understand Their Rights

Helping Clients Understand Their Rights

The next step in the homebuying process is "helping clients understand their rights." In this step, share with each client broad information about the following topics:

- The Fair Housing Act (covered in depth in Module 3)
- Abusive lending practices
- Loan scams
- Mortgage regulations
- Lender disclosures

To better understand these issues, we will see how they relate to each homebuying step and professional throughout the module.

How to Shop for a Home

The Homebuying Team

On the road to homeownership, your clients will work with several homebuying professionals, each with their unique and vital role.

Let's continue the module by meeting the entire team. Then, to complete the remaining steps in the homebuying process, we'll take a more in-depth look at what clients can expect when working with these team members.

Real Estate Agent/Broker

A real estate agent is an individual who is licensed to negotiate and arrange real estate sales for a commission. Buyers and sellers typically hire their own real estate agents to represent their interests in the transaction. A real estate agent typically works for a real estate broker. A REALTOR® is a real estate professional who is a member of the National Association of REALTORS®(NAR). Other housing professionals can also be members of NAR, including property managers, appraisers, and others.

Both the seller's broker and the buyer's broker typically receive a percentage of the selling price of the home as sales commission. The seller usually pays the commission of both brokers.

Lender

A lender refers to a person or company that makes loans for real estate purchases. A related term, loan officer, refers to a representative of a lending or mortgage company who is responsible for soliciting homebuyers, qualifying candidates for loans, and processing loans. Some loan officers, or lenders, are paid a flat salary, and others are paid on commission from the fees attached to the loan.

Underwriter

An underwriter is a lender's representative who analyzes a loan application, the borrower's credit history, and a judgment of the property value. They determine the lending risk involved and the borrower's capacity to repay the loan. An underwriting fee may be included in the homebuyers' closing costs.

Home Inspector

A home inspector is a professional who evaluates a property's structure, mechanical systems, quality, and safety. The inspection encompasses an assessment of plumbing, heating, cooling, roofing, wiring, foundation, and pest issues. They inform potential homebuyers about necessary repairs and are typically paid directly by the homebuyer.

Appraiser

An appraiser is a professional who estimates a property's fair market value based on the sales of comparable homes in the area and the property's features. This estimate is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property. Appraisers also identify health and safety issues of a home. It is common for lenders to hire an appraiser and add the appraisal fee to the buyer's closing costs.

Closing Agent

Also known as a settlement agent, this individual oversees the final transaction in the property purchase. During this transaction, the title is transferred from the seller to the buyer, and the seller receives payment for the property.

Depending on state requirements, a closing agent may be either an attorney or an escrow agent. In some states, mostly in the East, an attorney is required to oversee the closing. In many western states, it is most common for an escrow agent or company to serve as the closing agent, handling the paperwork to transfer the title during closing without attorney involvement. The responsibility of paying the closing agent should be negotiated between the seller and the buyer.

Insurance Agent

An insurance agent is a person employed to sell insurance policies. Most lenders require homeowners to obtain homeowners insurance before a loan is issued. Homeowners insurance policies, which include hazard insurance coverage, combine protection against damage to a dwelling and its contents. These insurance policies protect against fires, storms, or other damages, as well as against claims of negligence or inappropriate action that result in someone's injury or property damage.

Homeowners pay insurance premiums either directly to the insurance company or through a portion of their monthly mortgage payment, which is placed into an **escrow account** and distributed to the insurance company on an annual basis. Insurance agents receive their commissions from the companies they represent.

Escrow Account

An account in which escrow funds are held to be used for specific purposes by parties carrying out a mutual transaction. While there are many uses for an escrow account, they are commonly used by lenders to set aside a portion of monthly mortgage payments needed to cover property taxes, homeowners insurance, or other fees.

Assessor

An assessor is a government official responsible for determining the value of a property for taxation purposes.

Manufactured-Home Buying Team

Clients who intend to purchase a manufactured home will have a significantly different experience than those who intend to purchase site-built homes. The manufactured-home buying team will include additional team members and additional duties for traditional team members.

Real estate agent—can assist homebuyers to find:

- An existing manufactured home on real estate.
- An existing manufactured home on a leased lot.
- Real estate to purchase and place a new manufactured home.
- A leased lot on which to place a new manufactured home.

Appraiser—depending on the financing product, manufactured home appraisal requirements vary from site-built homes, including special considerations such as the presence of access roads and manufacturer certifications, as well as comparable properties.

Manufactured home dealer or retailer—new manufactured homes are purchased through a retailer, much like the process to buy a new car. HUD's Homeowner Fact Sheet offers several resources for homebuyers seeking to buy a new manufactured home.

Manufactured home community management or other landlord—homebuyers seeking to lease space or buy an existing home in a manufactured home community will also work with the landlord or manufactured home community's management team to secure the lot lease.

State titling authority—If the homebuyer wishes to obtain a mortgage for the manufactured home as real estate with the land, the manufactured home title must be converted from personal property to real property. Processes vary by state.

Knowledge Check 3

Match the homebuying team member on the left with the appropriate description on the right.

A. Home Inspector
B. Underwriter
C. Assessor
D. Appraiser
E. Lender

___ 1. A person or company that makes loans for real estate purchases. “Loan officer” is a related term that refers to a representative of a lending or mortgage company who is responsible for soliciting homebuyers and for qualifying and processing loans.

___ 2. A government official responsible for determining the value of a property for taxation purpose.

___ 3. A professional who inspects the home’s structure and mechanical systems to determine quality, soundness, and safety. They make the potential homebuyer aware of any repairs that may be necessary.

___ 4. A lender’s representative who analyzes a loan application. They evaluate the borrower’s credit history and a judgment of the property value to determine the risk involved and the borrower’s capacity to repay the loan.

___ 5. A professional who gives an estimate of a property’s fair market value based on the sales of comparable homes in the area and on the property’s features. This estimate is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

Knowledge Check 4

Which statement most accurately describes a member of the homebuying team?

A. A real estate agent or broker is typically an attorney or works for an escrow company. They oversee the final transaction in property purchase, at which time the title is transferred from the seller to the buyer.
B. The lender requires an assessment of the home by a home inspector before loan approval.
C. An insurance agent is also known as a settlement agent.
D. A home inspector is typically paid directly by the homebuyer.

Finding a Homebuying Team

Now that clients know who they need to assist them in the homebuying process, consider sharing these tips on finding professionals for their teams:

- Check the licenses of real estate agents or brokers and lenders to ensure they are legitimate professionals.
- Read online reviews about homebuying professionals you are considering.
- Request referrals of homebuying professionals from family and friends.
- Seek references for homebuying professionals from your bank.
- Select a real estate agent or broker first and ask for recommendations for other homebuying team members.
- Reach out to the state licensing agency to see if there have been any complaints filed against a real estate agent or broker.
- Ask people who have recently purchased homes about their experiences working with their homebuying professionals.

Note: The combination of homebuying professionals needed may vary slightly, depending on individual state requirements. Be sure to know your state's requirements.

Working with a Real Estate Agent

Now, let's look at information to prepare clients for working with individual homebuying professionals. Let's start with the real estate agent or broker, the key professional in steps four and five: "shopping for a home" and "making an offer."

Real estate agents or brokers help search for homes that fit clients' needs and make appointments for showings. The search is often most productive if clients have made a list of home features they need and want. Encourage clients to make this list as early as possible and offer them assistance in distinguishing between needs and wants. HUD's Home Wishlist Guide can guide your clients as they create this list.

Encourage your clients to supplement the efforts of their real estate agent or broker to search for homes that fit their needs. They can do this by searching online, driving through neighborhoods where they are interested in living, and attending open houses.

Making an Offer

When clients find a home they are interested in buying, their real estate agent or broker will also help them with step five: making an offer.

To better prepare them for this, you can inform them about what to expect.

Initial Offer Letter

Real estate agents or brokers will consult with homebuyers to determine a price to offer the sellers. They may base this amount on the sales price, as well as other factors, such as the prices of other homes sold recently in the area. The buyers' real estate agent or broker writes a sales contract stating the determined price and gives this to the sellers' real estate representative.

Negotiations

Sellers may accept the buyers' initial offer, decline the initial offer, or make a counter-offer. In counter-offers, the sellers might adjust the time frame on closing or ask for a higher price. The buyers' real estate agent or broker will help to navigate this process.

Earnest Money

When buyers and sellers reach an agreement on a price and terms of the deal, the buyers will give their real estate agent a check for the earnest money deposit to be held until closing. The purpose of the check is to prove the buyers' sincere intent to purchase the home. The amount offered typically ranges by region, from as low as 1% of the sales price to as high as 10%, and can be negotiated. A higher amount shows greater intent to buy.

In addition, real estate agents and brokers are obligated to follow fair housing regulations. Recall from Module 3.1 that fair housing laws make it illegal for clients to be declined from purchasing a property they can afford because of their race, religion, or any other protected characteristic. It is helpful for clients to know their legally protected rights so they can recognize if they become victim of an abusive practice. Take time to make clients aware of fair housing laws before they begin working with a real estate agent or broker.

It is also useful to advise clients to seek information about the prices of other homes in the neighborhood before reaching a final agreement on the price and terms of the deal. This will help clients to evaluate and assess the price they pay for their home.

Purchasing a Manufactured Home

Housing counselors should encourage manufactured-home buyers to consider the many ways to purchase and own a manufactured home. New manufactured homes are sold through dealers or retail sales centers, which may be independently owned and operated or owned by the manufacturer. Most retailers also offer financing through chattel loans or partner with lenders to provide chattel loans or mortgage financing for home and land purchases. In some states, homebuyers can purchase a previously occupied home from a manufactured home community or from the current homeowner through a real estate agent.

When purchasing a new manufactured home, buyers should shop around to find the best retailer and model that suits their needs. Many retailers will help the buyer choose the model and features. Retailers are typically responsible for coordinating the delivery and installation of the home on the site. Once the buyer is moved in, the retailer typically serves as the contact for warranty service while the manufacturer will perform any repairs.

New manufactured homes are usually covered by at least one type of warranty. Unless the home is being sold as-is, an **implied warranty**, or an unspoken, unwritten promise that a product is fit to be sold and used for its intended purpose, usually applies. Most new models also include a manufacturer's warranty.

Manufacturer's warranties generally cover substantial defects in the following areas:

- The structure
- Factory-installed plumbing, heating, and electrical systems
- Factory-installed appliances, which may also be covered by separate appliance manufacturer's warranties

Manufacturer's warranties generally do not cover:

- Improper installation and maintenance
- Accidents occurring during transport
- Owner negligence
- Unauthorized repairs
- Normal wear and aging

Implied warranty

An unspoken, unwritten promise that a product is fit to be sold and used for its intended purpose, which usually applies unless the product is sold "as-is."

Manufactured-home buyers must ensure the installer follows the manufacturer's instructions. Additionally, homeowners must follow the manufacturer's maintenance and repair instructions to keep the warranty in effect. Warranties may or may not transfer with the purchase of a previously owned manufactured home, depending on the terms.

Resident-Owned Communities

Manufactured-home buyers who do not plan to place their home on a stand-alone purchased lot may want to consider purchasing a lot and/or home in a resident-owned community, or ROC. Much like a condominium, ROC homes are usually taxed and titled as real property, which allows for better financing options. Additionally, since the community is owned by the residents, there is less risk of lot fee hikes than with leasing in a typical manufactured home community. In some cases, residents of manufactured home communities have converted their manufactured home community to an ROC by forming a resident board and purchasing the community from the landlord in order to prevent the sale of the community and the subsequent forced relocation of their homes.

Installing a Manufactured Home

The price of a new manufactured home may include installation. If installation is not included, the retailer may be able to recommend a professional installer. State law may require written proof of an installer's qualifications. Buyers should get a written explanation of the installation services, promises, and applicable warranties from the installer and read the contract before signing.

The following six steps for installation should be included in a written, itemized list before the purchase contract is signed:

1. *Transporting the home*. The retailer or its transporter is usually responsible for delivering the home to the site. The site must be accessible by road in order for most retailers or transporters to deliver.
2. *Building a foundation*. The foundation should meet the requirements of the landlord, community, and/or the mortgage loan product. The buyer is responsible for ensuring that all applicable requirements will be met.
3. *Leveling the home*. A level foundation is critical to evenly distribute the home's weight. Because some foundation supports may settle unevenly, it is important to periodically check that the home stays level. The first check should be done 60 to 90 days after installation, and then once every year.
4. *Securing the home to the foundation*. To help minimize damage from high winds and earthquakes, the home should be anchored to the ground or concrete footers. Anchoring must comply with the manufacturer's instructions, or as otherwise required.
5. *Finishing the home*. The home may need finishing work, including an enclosure around the crawl space or, for multi-section homes, molding and joining carpet on the interior, and siding and roofing on the exterior.
6. *Connecting utilities*. Installation should include connections to water, electricity, gas, and sewer. If connections are not included in the installation price, the buyer will have to hire a separate contractor.

Before moving in, the homeowner should perform an organized home inspection of the exterior and each room of the interior. Many manufacturers provide a checklist in the owner's manual and homeowners must return a completed copy to the manufacturer in order to validate the warranty.

Obtaining Financing

Selecting a Lender and a Financing Product

Next, let's explore the essential aspects of step six: obtaining financing, which relates to selecting lenders and financing products.

When clients settle on a home, they often need to obtain financing through a lender. Clients may select a lender before making an offer if a home seller requires them to have **pre-approval**. Either way, your clients will want to speak with several lenders to compare **total loan costs** before making a selection.

Pre-approval

A client receives pre-approval when a lender commits to lend him or her a fixed loan amount based on a review of a completed loan application, credit reports, debt, savings, and a review by an underwriter.

The term "pre-qualified" is often confused with "pre-approval," although there is a significant difference between the two. Clients can obtain a pre-qualification by discussing their financial history with a lender. There is generally no cost, underwriting process, or commitment associated with pre-qualification. Based on the information gathered in the discussion, a lender recommends the mortgage best suited to the client, as well as an estimate of the mortgage amount for which the client would likely qualify.

Total Loan Cost

The total loan cost is affected by the basic interest rate plus the **loan origination fees** and **discount points**. The annual percentage rate, or APR, is a reflection of the total loan cost and can be used as a simple tool to compare mortgages.

Loan Origination Fees

A charge by the lender to cover the administrative costs of making the mortgage. This charge is paid at the closing and varies with the lender and type of loan. A loan origination fee of 1 to 2% of the mortgage amount is common.

Discount Points

A type of pre-paid interest normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount. The borrower pays them to reduce the interest rate on a loan. Borrowers can purchase a lender-determined number of discount points to lower the rate and lower monthly mortgage payment.

Consider sharing these useful tips during pre-purchase counseling.

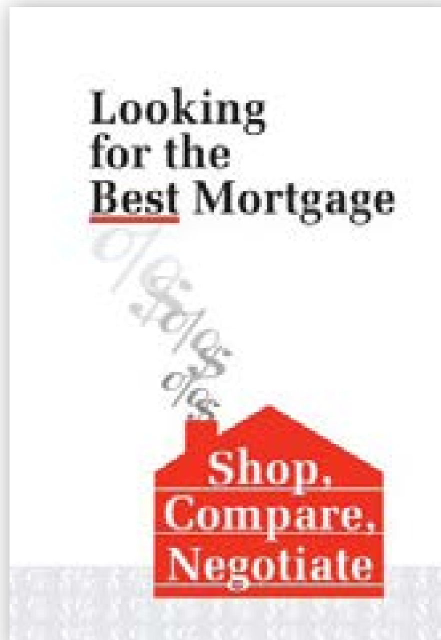
Selecting a lender:

- Talk with three to five different lenders.
- Have all credit reports pulled within a 30-day period to **reduce the negative impact on your credit**.
- Recognize that most lenders have similar products, but typically have different rates.
- Shop for the best loan cost.
- Select a lender who commonly issues the type of product you want.
- Review the official Looking for the Best Mortgage Booklet on shopping for a mortgage.

Your clients will be able to make a more informed selection of a lender and financing product if you give them a simple explanation of the products. A fixed-rate mortgage is the most common type of loan, though other options exist, such as an adjustable rate mortgage, or ARM. Recall from Module 2.2 specific products such as conventional, USDA, FHA, and VA loans.

Reduce Negative Impact on Your Credit

Each lender submits an inquiry for the potential borrower and pulls their credit report. Typically, credit inquiries have a slightly negative impact on a credit score; however, if the potential borrower shops rates within a 30-day period, all credit inquiries related to mortgages will count as a single pull.



Note: Some lenders do not finance mortgages or loans for manufactured homes even if the home is taxed and titled as real estate. Buyers intending to purchase a manufactured home as real estate should verify that the lender will make a manufactured home mortgage.

Manufactured homes titled as personal property or with paid or unpaid leasehold land interest do not qualify for a typical mortgage. Counselors should guide these buyers through selecting a non-mortgage loan product, such as FHA Title I, chattel loans, or retailer loans. Manufactured home financing is discussed in detail in Module 2.2.

Knowledge Check 5

Which piece of advice would you give to clients as they begin the process of obtaining financing?

A. Never speak with lenders before settling on a home.
B. Have all potential lenders pull credit within a 30-day window.
C. Mortgages with adjustable rates are always best.
D. Choose whichever lender is most prompt in returning your phone calls.

Avoiding Abusive Lending Practices

Example of Abusive Lending Practices

When clients shop for a lender and begin applying for financing, they may encounter abusive, or predatory, lending practices. Predatory lending occurs when a lender deceitfully persuades a borrower to consent to unfair or illegal loan terms. Each year, misinformed homebuyers, often first-time purchasers, fall victim to predatory lending. Let's read a story about one such victim.

by Tribune Staff Writer

ANYTOWN, USA -- Lester bought his first home five years ago. He recently received an inheritance from his uncle and decided to pay off his entire mortgage. He was surprised to learn from the bank that as a penalty for paying the loan ahead of schedule, he must pay a year's worth of interest. Lester still owed $100,000 on his mortgage, which had a 7% interest rate. Using an amortization schedule, he calculated that the prepayment penalty would cost him nearly $7,000 in addition to his mortgage balance.

There are a few predatory examples in Lester's story, including lack of disclosure and abusive fees. Lester should have been informed about the prepayment penalty before closing, and the terms of the penalty should have been limited. We'll review mortgage regulations designed for consumer protection later in the module, but first let's take a look at ways to protect against predatory practices.

Avoiding Abusive Lending Practices

To help protect your clients from such practices, give them a brochure with tips to review like the example here. Make sure you are familiar with the brochure content so you can answer clients' questions and identify potentially harmful situations.

Protect Yourself

from

PREDATORY LENDING & LOAN SCAMS

"Predatory mortgage lending practices strip borrowers of home equity and threaten families with foreclosure, destabilizing the very communities that are beginning to enjoy the fruits of our nation's economic success."

– U.S. Department of Housing and Urban Development

Note–Brochure content continues on next page.

You can protect yourself from predatory lending practices and loan scams by following these guidelines:

Do . . .

- **Review paperwork carefully before signing.** Never sign a blank document or a document containing blanks. Also, before signing any documents given to you by the lender, consider asking your housing counselor to review it to ensure it protects your best interests.
- **Research before making decisions.** Compare costs by meeting with several lenders or checking current rates on national websites. Avoid being steered toward any one lender by someone else.
- **Be suspicious of offers that seem too good to be true.** If the offer sounds too good, it likely is.
- **Be skeptical when lenders require you to act immediately.** Predatory lenders will often tell you things like "If you don't decide today, you will lose this great opportunity!"
- **Avoid higher-risk loans.** Borrowers need to avoid pressure to accept loans that have **balloon payments**, unclear loan terms, or **prepayment penalties**. Prepayment penalty restrictions and required disclosures vary by loan type, but clients should be aware of penalties that may impede the sale or refinance of the home.
- **Ensure that you aren't paying higher interest rates because of discriminatory practices.** Interest rates should be based on credit history, not on race, religion, and other protected characteristics.

Balloon Payments

An oversize payment due at the end of a mortgage.

Prepayment Penalty

A provision in some loans that charges a fee to a borrower who makes mortgage payments ahead of schedule. A fee can be assessed as a percentage of the loan balance or as a flat rate, such as a certain number of months' worth of interest payments. New mortgage reform has placed limits on prepayment penalties and requires lenders to offer an alternative transaction that does not include a prepayment penalty.

Don't . . .

- **Borrow more money than you know you can afford to repay.** If you get behind on your payments, you risk losing your home and all of the money you have already invested in it.
- **Write false statements on a loan application.** It is fraud, and you could be charged with criminal penalties. Always accurately state your income, source of down payment, amount of debts, and other information.
- **Pay fees for unnecessary or nonexistent products/services.** Make sure you ask for an explanation for anything that looks odd or unnecessary in your paperwork. If you and your housing counselor decide you don't need it, ask that it be removed from the costs.

URLA Process

The URLA Form

In addition to the loan officer or lender, there are other homebuying professionals involved in the "obtaining financing" step. One of these is the underwriter.

When your clients select a loan officer and a mortgage, they will have to fill out a significant amount of paperwork to apply for the loan. An underwriter will analyze the paperwork and determine whether your clients are good candidates for a loan and how much they can borrow. One of the key application documents for borrowers to apply for a loan is the Uniform Residential Loan Application, or URLA, a standardized document jointly published by the government-sponsored enterprises, or **GSE**s—Fannie Mae and Freddie Mac.

GSE Loan or Mortgage

A government-sponsored enterprise, or GSE, is a financial services entity created by Congress. A GSE loan or mortgage refers to a mortgage owned by Fannie Mae or Freddie Mac.

At the direction of the Federal Housing Finance Agency, or FHFA, and in collaboration with industry partners and government agencies, the GSEs updated the URLA and published a revised form in December 2017, the first substantial revision to the form in more than 20 years.

The redesigned URLA includes a reorganized layout and simplified terminology, providing lenders and borrowers with greater clarity and an easier, more consumer-friendly loan application.

Fannie Mae and Freddie Mac have published the updated interactive version of the redesigned URLA with an effective date of January 1, 2021 and a mandated implementation date of March 1, 2021.

The completed URLA form outlines your clients' financial history. Clients typically complete the form on their own or with their lender; however, clients may come to you with questions about it. So, let's take a moment to review its most important components in the following featured sections.

Note: to view the URLA form in its entirety please visit the above link.

Section 1. Borrower Information

This sections asks about personal information and income from employment and other sources, such as retirement, that a borrower wants considered to qualify for a loan.

Name *(First, Middle, Last, Suffix)*

Alternate Names – *List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix)*

Social Security Number ______–_____–______
(or Individual Taxpayer Identification Number)

Date of Birth *(mm/dd/yyyy)* ____/____/______

Citizenship
- ○ U.S. Citizen
- ○ Permanent Resident Alien
- ○ Non-Permanent Resident Alien

Section 2. Financial Information—Assets and Liabilities

This section asks about things a borrower owns that are worth money and that the borrower wants considered to qualify for the loan. It also asks about liabilities (or debts) that are paid monthly, such as credit cards, alimony, or other expenses.

Include all accounts below. Under Account Type, choose from the types listed here:

- Checking
- Savings
- Money Market
- Certificate of Deposit
- Mutual Fund
- Stocks
- Stock Options
- Bonds
- Retirement *(e.g., 401k, IRA)*
- Bridge Loan Proceeds
- Individual Development Account
- Trust Account
- Cash Value of Life Insurance *(used for the transaction)*

Account Type – *use list above*	Financial Institution	Account Number	Cash or Market Value
			$
			$

Section 3. Financial Information—Real Estate

This section asks the borrower to list all properties currently owned and amounts owed on them.

Address
Street Unit # City State ZIP

Property Value	Status: Sold, Pending Sale, or Retained	Monthly Insurance, Taxes, Association Dues, etc. *if not included in Monthly Mortgage Payment*	For Investment Property Only: Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
$		$	$	$

Mortgage Loans on this Property ☐ *Does not apply*

Section 4. Loan and Property Information

This section asks about the loan's purpose and the property the borrower wants to purchase or refinance.

Loan Amount $ ____________ **Loan Purpose** ○ Purchase ○ Refinance ○ Other *(specify)* ____________

Property Address Street ______________________________ Unit # ______
City State ZIP
County ____________ Number of Units ______ **Property Value** $ ____________

Occupancy ○ Primary Residence ○ Second Home ○ Investment Property ○ FHA Secondary Residence

1. Mixed-Use Property. If you will occupy the property, will you set aside space within the property to operate

Section 5. Declarations

This section asks specific questions about the property, the borrower's funding, and the borrower's past financial history.

A. Will you occupy the property as your primary residence? ○NO ○YES

If YES, have you had an ownership interest in another property in the last three years? ○NO ○YES

If YES, complete (1) and (2) below:

(1) What type of property did you own: primary residence (PR), FHA secondary residence (SR), second home (SH), or investment property (IP)?

(2) How did you hold title to the property: by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?

B. If this is a Purchase Transaction: Do you have a family relationship or business affiliation with the seller of the property? ○NO ○YES

Section 6. Acknowledgments and Agreements

This section informs borrowers about their legal obligations when signing the application.

I agree to, acknowledge, and represent the following statements to:

- The Lender (this includes the Lender's agents, service providers and any of their successors and assigns); AND
- Other Loan Participants (this includes any actual or potential owners of a loan resulting from this application (the "Loan"), or acquirers of any beneficial or other interest in the Loan, any mortgage insurer, guarantor, any servicers or service providers of the Loan, and any of their successors and assigns).

(3) The Property's Appraisal, Value, and Condition

- Any appraisal or value of the property obtained by the Lender is for use by the Lender and Other Loan Participants.
- The Lender and Other Loan Participants have not made any representation or warranty, express or implied, to me about the property, its condition, or its value.

(4) Electronic Records and Signatures

- The Lender and Other Loan Participants may keep any paper record

Section 7. Military Information

This section asks questions about your (or your deceased spouse's) military service.

Military Service – Did you (or your deceased spouse) ever serve, or are you currently serving, in the United States Armed Forces? ○ NO ○ YES

If YES, check all that apply:

- ☐ Currently serving on active duty with projected expiration date of service/tour __ / __ / ____ *(mm/dd/yyyy)*
- ☐ Currently retired, discharged, or separated from service
- ☐ Only period of service was as a non-activated member of the Reserve or National Guard
- ☐ Surviving spouse

Section 8. Demographic Information

This section asks about a borrower's ethnicity, sex, and race. Questions in this section are optional.

Ethnicity: *Check one or more*

☐ Hispanic or Latino

☐ Mexican ☐ Puerto Rican ☐ Cuban

☐ Other Hispanic or Latino – *Print origin:*

For example: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on.

Race: *Check one or more*

☐ American Indian or Alaska Native – *Print name of enrolled or principal tribe:*

☐ Asian

☐ Asian Indian ☐ Chinese ☐ Filipino

☐ Japanese ☐ Korean ☐ Vietnamese

☐ Other Asian – *Print race:*

Section 9. Loan Originator Information

This section is completed by the loan originator and includes licensing information.


Loan Originator Organization Name

Address

Loan Originator Organization NMLSR ID# State License ID#

Loan Originator Name

Loan Originator NMLSR ID# State License ID#

Email Phone

Note: A written loan application is required for manufactured homes classified as personal property, but the URLA form is only required for manufactured homes that will be mortgaged as real property.

Knowledge Check 6

Which information is required to complete the URLA?

A. Child support income
B. Student loans
C. Borrower ethnicity
D. Referrals of past landlords

Obtaining Financing (cont.)

The Appraiser

The last team member involved in obtaining financing that we'll discuss is the appraiser. You can help your clients learn what to expect during the appraisal process by sharing the following information.

Appraisers, who are hired by lenders, complete reports, such as the Uniform Residential Appraisal Report, which include:

- The estimated market value of the home to ensure that it supports the mortgage amount.
- The identification of health and safety issues with the property.

Buyers may have the following options if a home appraises for less than the offer or proposed loan amount:

- Buyers must pay the difference out of pocket if they want to proceed with the purchase.
- Buyers may be able to cancel the offer contract if it includes a contingency clause.

Based on the loan type and property, an interior inspection may or may not be required for an appraisal. Lenders are required to provide a free copy of all appraisal valuations obtained at least three days before the closing.

Note that the appraisal is different than the home inspection. The appraiser works for the lender, and the buyer is rarely involved with the appraisal. The home inspector, on the other hand, works for the buyer and provides information on any potential problems with the property. We'll discuss home inspections in greater detail later in the module.

It is helpful for clients to review the appraisal report with you in order to identify any improper factors used to determine the home's value, such as the racial or religious background of the neighborhood's residents. Factors to consider in the appraisal include:

- The final sales price of similar properties in the area.
- A comparison of the appraised property's features, such as yard size and number of rooms, to the properties nearby.
- The condition of the home's components and the need for repairs or upgrades.

If a client believes that any improper practices were involved with an appraisal, you can assist the client to file a complaint with the Consumer Finance Protection Bureau, or CFPB, which regulates this practice through the Equal Credit Opportunity Act, or ECOA.

Knowledge Check 7

Review each statement to determine if it is true or false based on what you know about working with an appraiser. For those that are true, place an "T" before the statement. For those that are false, place an "F" before the statement.

___ A. It is improper for an appraiser to consider the racial or religious background of a neighborhood's residents to determine the value of a home.
___ B. Lenders hire appraisers.
___ C. Homebuyers can cancel the offer contract if the contract includes a contingency clause.
___ D. Homebuyers rarely are allowed to see the appraisal information and for that reason are encouraged to get a home inspection.

Mortgage Regulations and Lender Disclosure Requirements

While discussing best practices for working with a real estate agent or broker, a lender, an underwriter, and an appraiser, we have reviewed precautions that you'll want to explain to your clients in order to help them avoid falling victim to abusive practices.

You can further help clients avoid abusive practices by informing them of the laws designed to protect their consumer rights. Take a moment to discuss these mortgage regulations and lender disclosure requirements with your clients during pre-purchase counseling.

Equal Credit Opportunity Act, or ECOA

Description

Federal law requiring lenders to make credit available equally without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Example Violation

A lender denied a loan to an immigrant family. When the family inquired about the reason for denial, the lender claimed that he could not approve loans for homebuyers who have lived in the country less than five years.

File a Complaint

Enforced by the Federal Trade Commission, or FTC

To file a complaint, visit www.ftc.gov/complaint.

Real Estate Settlement Procedures Act, or RESPA

Description

Federal law prohibiting certain abusive practices that increase the cost of settlement services. Home sellers cannot require homebuyers to purchase title insurance from a particular company. In addition, a person cannot give or receive anything for settlement business referrals or for services that are not performed.

RESPA governs required mortgage transaction disclosures that describe closing costs, lender servicing and escrow account practices, and business relationships.

Note: Manufactured home loans are not covered under RESPA unless the home is mortgaged as real property.

Example Violation

A home seller's cousin owns a title insurance company and promises the home seller a kickback if he refers the homebuyer as a client. The home seller included the use of his cousin's company as a requirement for purchase of the home.

File a Complaint

Enforced by the Consumer Finance Protection Bureau, or CFPB

To file a complaint, visit: www.consumerfinance.gov/complaint/#mortgage.

Truth in Lending Act, or TILA

Description

Federal law requiring that lenders disclose important information to borrowers in a variety of consumer finance transactions, including mortgage finance. To protect consumers against inaccurate and unfair loan billing and credit card practices, it requires lenders to provide consumers with loan cost information so that they can comparison shop.

Some entities that do business in rural or underserved counties are exempt from certain TILA regulatory requirements. Refer to the CFPB Rural and Underserved Counties List for more information.

A key change of the CFPB amendment to TILA, called the Ability to Repay/Qualified Mortgage, or ATR/QM, rule, requires that lenders make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan, considering such factors as the consumer's income or assets and employment status, as well debt obligations and credit history. Certain creditors, such as nonprofits serving low-to-moderate income consumers, are exempt from ATR requirements.

A loan is considered a Qualified Mortgage, or QM, if certain criteria apply.

A loan is considered a QM if:

- It does not contain certain risky features, such as interest-only payments or negative amortization;
- The total points and fees do not exceed three percent of the total loan amount; and
- The term of the loan does not exceed 30 years.

There are different types of QMs, and some impose greater restrictions, such as prohibiting balloon payments or prepayment penalties, though all loans must meet the requirements outlined and follow certain underwriting criteria.

TILA governs the required mortgage transaction disclosures that describe important conditions and terms of credit.

Note: TILA covers loans for manufactured homes classified as personal property only when the home is the borrower's principal residence.

Example Violation

A client submitted a mortgage loan application for a 30-year fixed-rate mortgage and received the required disclosures a few days later. He noticed that the APR listed was higher than the interest rate quoted by the lender and that the loan product included an interest-only payment period.

File a Complaint

Enforced by the Federal Trade Commission, or FTC

To file a complaint, visit: https://reportfraud.ftc.gov/#/assistant

TILA-RESPA Integrated Disclosure Rule, or TRID

Description

Federal law amending regulations under the Real Estate Settlement Procedures Act, or RESPA (Regulation X) and the Truth In Lending Act, or TILA (Regulation Z), effective as of October 3, 2015. TRID, also called the **Know Before You Owe** rule, requires easier-to-use mortgage disclosure forms that clearly outline the terms of a mortgage to the borrower and provide detailed explanations about how the forms should be completed and used.

The rule combined certain lender disclosures:

- The Good Faith Estimate (GFE) and the Truth-in-Lending disclosure (initial TIL) became the **Loan Estimate**.
- The HUD-1 Settlement Statement and the final TIL disclosure became the **Closing Disclosure**.

Loan Estimate. This new form, designed to help consumers understand the key features, costs, and risks of the mortgage loan for which they are applying, must be provided to consumers no later than three business days after they submit a loan application.

Key features:

- Loan Terms
- Costs at Closing
- Adjustable Payment Table, if applicable
- Adjustable Interest Rate Table, if applicable
- Contact Information
- Other Considerations
- Buyer's Signature Requirement

Closing Disclosure. This new form, designed to help consumers understand all of the costs of the transaction, must be provided to consumers at least three business days before closing. However, if the APR is inaccurate, the loan product changes, or a prepayment penalty is added, then the lender must provide new disclosures and allow an additional three business days prior to closing.

Key features:

- Generally must contain the actual terms and costs of the transaction
- Final Loan Terms
- Final Costs at Closing
- Cash to Close
- Summary of Transactions
- Additional Information About the Loan
- Final Adjustable Payment Table, if applicable
- Final Adjustable Interest Rate Table, if applicable
- Loan Calculations
- Other Disclosures
- Contact Information

From the time of the Loan Estimate to the time of the Closing Disclosure, some costs can increase and others cannot.

Cannot Increase	Can Increase up to 10%	Can Increase to any Amount
• Fees paid to lender, mortgage broker, or an affiliate of either one • Fees for required service that the lender did not allow the borrower to shop separately for, when the provider is not affiliated with the lender or mortgage broker • Transfer taxes	• Required services that the borrower selects from the lender's list of providers • Government recording charges	• Prepaid interest, property insurance premiums, and initial escrow account deposits • Fees for required services that the borrower can shop for • Fees for third-party services the lender does not require

Note: The TRID Rule does not apply to manufactured home loans unless the home is being mortgaged as real property.

Example Violation

A client receives her Closing Disclosure three days prior to closing. Two days later, she receives an updated Closing Disclosure with no change to her closing date.

File a Complaint

Enforced by the Consumer Finance Protection Bureau, or CFPB

To file a complaint, visit: www.consumerfinance.gov/complaint/#mortgage.

Home Ownership and Equity Protections Act, or HOEPA

Description

Federal law enforcing special disclosure requirements and restrictions on terms for loans that meet high-cost mortgage tests. HOEPA was enacted as an amendment to TILA to address abusive practices in refinances and closed-end home **equity** loans with high interest rates or high fees. Regulations issued to implement the Dodd-Frank Act further amended TILA, effective January 10, 2014, expanding the scope of HOEPA to home equity lines of credit, or HELOCs. The Dodd-Frank Act also added new protections for high-cost mortgages, including a requirement that consumers receive homeownership counseling before obtaining a high-cost mortgage.

> **Equity**
>
> Value of ownership interest in property. Determined by the difference between the fair market value of a property and the remaining mortgage balance owed.

A loan is covered by HOEPA if certain criteria apply.

A loan is covered by HOEPA if:

- APR exceeds Treasury rates for comparable securities by
    - 6.5% for first lien transactions;
    - 8.5% for first-lien transactions less than $50,000 and secured by personal property (e.g., RVs, houseboats, and manufactured homes titled as personal property); or
    - 8.5% for junior lien transactions.
- Total fees and points payable by the borrower at or before closing exceed the larger of 5% of the loan or a fixed amount adjusted annually by the CFPB.

HOEPA requires certain disclosures at least three days before closing.

Required HOEPA disclosures include:

- A written notice informing the consumer that the loan will not be effective until consummation or account opening occurs.
- Information on the consequences of default.

- A written notice warning that borrowers could lose a residence and any money invested in it if they do not make the payments.
- The APR, payment amount, and loan amount. For variable rate loans, the lender must disclose that the rate and monthly payment may increase and the amount of the maximum monthly payment.

The HOEPA prohibits or restricts certain predatory practices for high-cost mortgages.

Banned or restricted practices include:

- Negative amortization, prepayment penalties, and due-on-demand features. Balloon payments are generally banned, with specific exceptions for three circumstances:
- Adjusted payment schedule to accommodate seasonal income of borrower,
- Short-term loans (12 months or less),
- Creditors meet criteria for serving rural or underserved areas.
- Recommending default on an existing loan to be refinanced by a high-cost mortgage.
- Charging a fee to modify, defer, renew, extend, or amend a high-cost mortgage.
- High late fees and pyramiding of late fees. There are rules for imposing late fees when a consumer resumes making payments after missing one or more payments.
- Fees for generation of payoff statements, with limited exceptions.
- Financing points and fees (i.e., rolling them into the loan amount). However, lenders can finance closing charges excluded from the definition of points and fees, such as bona fide third-party charges.
- Purposely structuring a transaction to evade HOEPA coverage.

Example Violation

A first-time homebuyer with damaged credit learned that she could buy a home with an adjustable-rate HOEPA mortgage. She did not know what this type of mortgage was, but she was happy because she had not qualified for other loans. Several months after she bought the home with this mortgage, she noticed a large increase in her payment. She knew her payments could change, but the lender never mentioned how much they could increase.

File a Complaint

Enforced by the Federal Trade Commission, or FTC, and by the Consumer Finance Protection Bureau, or CFPB. To file a complaint, visit: https://reportfraud.ftc.gov/#/assistant or www.consumerfinance.gov/complaint/#mortgage.

Note: When a manufactured home is classified as personal property, the protections provided by HOEPA are less likely to apply.

Knowledge Check 8

Loans for manufactured homes classified as personal property are covered by which federal regulations? Select all that apply.

A. Real Estate Settlement Procedures Act, or RESPA
B. Truth in Lending Act, or TILA
C. TILA-RESPA Integrated Disclosure Rule, or TRID
D. Home Ownership and Equity Protections Act, or HOEPA
E. Equal Credit Opportunity Act, or ECOA

Knowledge Check 9

A client is shopping for a loan and submits a loan application to a lender. The client asks for information about possible settlement costs, but the lender says that he needs to see the purchase contract in order to move forward with the process. The lender should have provided which item?

A. URLA
B. ATR/QM
C. Loan Estimate
D. Closing Disclosure

Knowledge Check 10

A client spoke with five lenders. Four of the five lenders quoted interest rates between 4.1% and 4.6%. One lender mentioned a 3.1% interest rate if she signed for it within the next 36 hours. She was very interested in this loan, so she asked for more information (e.g., conditions and fees). The lender provided some information about the loan, but nothing included the APR. Which regulation deems this practice unlawful?

A. ECOA
B. RESPA
C. TILA
D. HOEPA

Knowledge Check 11

A certain mortgage company encourages all its clients to use a specific appraiser. The appraisers give the mortgage company $100 for every one of its clients who comes to them. If the mortgage company does not tell clients about the payment it receives for referrals, this is a breach of which regulation?

A. ECOA
B. RESPA
C. TILA
D. HOEPA

Knowledge Check 12

A twenty-eight-year-old single woman was denied a mortgage loan. When she asked why, she was told that the lender had given loans to women her age in the past but no longer would. He figured they could not make monthly payments within a few years because they had children and stopped working or cut back to part-time work.

Which regulation deems this practice unlawful?

A. ECOA
B. RESPA
C. TILA
D. HOEPA

How to Shop for a Home (cont.)

The Home Inspector

Now that you know about mortgage regulations and disclosures, let's move on to step seven, "getting a home inspection."

The Final Rule for Housing Counseling Certification mandates that all homeownership counseling clients receive required home inspection information. These pamphlets, including "For Your Protection Get a Home Inspection" and "10 Questions to Ask a Home Inspector," are available in the resources section in both English and Spanish.

Here are some questions your clients may ask in pre-counseling sessions about what to expect when working with a home inspector. Let's take a look at sample housing counselor responses.

Am I required to hire a home inspector?

This step is optional, but it is very strongly recommended. When considering whom to hire, it is helpful to interview several inspectors and select one that is properly qualified and licensed.

What does the home inspector do?

A qualified inspector carefully examines the physical condition of the home, identifies items in need of repair or replacement, and estimates the remaining life of various home components.

What can I do if the inspector identifies problems?

A home inspection contingency can be included in the offer contract that outlines a buyer's options in the case that the home inspector identifies major issues during inspection. The contingency typically gives the buyer the right to discontinue the purchasing process or requires the seller to put money in an escrow account to cover repair costs.

SELECTING AN INSURANCE AGENT AND POLICY

Most lenders require clients to purchase homeowners insurance in order to avoid a large financial loss if the property is significantly damaged or destroyed. Whether or not it is required, it is advisable for most homeowners to have insurance, because it offers a financial security.

So, the next step in the homebuying process is "purchasing homeowners insurance." In order to prepare clients to work with an insurance agent to carry out this step, housing counselors can:

- Offer advice to clients about selecting an insurance agent and policy.
- Explain basic types of homeowners insurance coverage.
- Answer questions related to earthquake insurance and flood insurance.

Note: Due to their vulnerability to certain types of weather, manufactured homes typically do not qualify for traditional homeowners insurance unless they are taxed and titled as real estate and meet specific building standards. Some insurance companies offer special manufactured home policies for homes that do not qualify for traditional homeowners insurance.

Discounts

The following are examples of actions that may qualify clients for discounts from insurance agents:

- Buying package insurance, or bundling insurance. This means that the same insurance company issues a policy for your homeowners insurance, auto insurance, and/or other coverage.
- Installing deadbolts.
- Purchasing smoke alarms.
- Installing an interior sprinkler system.
- Increasing your **credit score**.

Credit Score

Consumers with lower credit scores may pay higher insurance premiums because some insurance companies use credit report information, along with other factors, to help predict the likelihood of a consumer to file an insurance claim and the amount of the claim.

Selecting an Insurance Agent and Policy

Here is some advice you can offer to clients about selecting an insurance agent and policy.

- Shop around to compare rates. With similar products, consider the least expensive.
- Ask insurance agents about **discounts** offered for homes with specific safety features or for other reasons.
- Recognize that the cost of homeowners insurance may be included in your monthly mortgage payment.

- Do your research up front rather than waiting until a disaster hits to find out whether or not you have the right type of coverage.
- Select insurance coverage that matches your personal circumstances, the home's age/condition, and the home's geographic location.

Knowledge Check 13

Which action should a client **avoid** during the process of purchasing homeowners insurance?

A. Purchase the same homeowners insurance policy as the previous homeowner.
B. Do research up front to get the right type and amount of insurance.
C. Insure the home and personal property.
D. Shop around to get the best insurance rates.

Types of Homeowners Insurance Coverage

Let's look a little closer at types of homeowners insurance coverage.

Structure Coverage

Structure coverage reimburses policyholders for repairs needed for a building structure when it is damaged by certain **perils**. For example, if a fallen branch damages the roof during a snowstorm, the homeowners are entitled to receive funds from their insurer to repair the roof.

Clients who purchase a condominium unit or other housing with an HOA or community association are encouraged to review their association's master insurance policy with a housing counselor or the insurance agent before purchasing their own structure coverage. Oftentimes the common components of a building, including the roof, hallways, and garage, if applicable, are insured with funds paid jointly by all residents of the condominium. Condo owners should ensure that they are protected from any gaps in coverage between the master policy and their personal policy (e.g., the master policy requires a large deductible for any shared costs among residents).

Perils

Homeowners insurance policies include coverage for certain hazards, sometimes referred to as hazard insurance, which provides protection for perils. While qualifying perils may vary among homeowners insurance policies, some examples of possible qualifying perils include fire, windstorms, hail, vandalism, and theft. Most regular homeowners policies will not cover damage caused by earthquakes or flooding.

Loss of Use Coverage

Loss of use coverage provides funding for housing and food expenses of policyholders who temporarily cannot live in their home when it is damaged or destroyed by certain perils. For example, if part of a home is destroyed in a fire, the residents may live in a hotel while the home is being repaired and may claim funds from their insurer for the hotel and food expenses.

Contents Coverage

Contents coverage reimburses policyholders for **personal property** destroyed by certain perils. Depending on the policy, clothing, furniture, household items, musical instruments, laptops, and other items can be reimbursed. For example, if a flat-screen television and laptop are stolen from a home, insurers may reimburse homeowners for the value of the stolen items.

It is standard for homeowners policies to cover contents only for "actual cash value" rather than for the "replacement cost." Actual cash value policies consider depreciation and reimburse you for what you would be able to sell the item for at the time it was damaged or destroyed. Replacement cost policies, on the other hand, will pay you for the amount that it would cost to replace the item with a new item of the same variety.

Oftentimes, clients have the option to pay a higher **premium** to purchase a replacement cost policy. Here is an example that demonstrates why that may be a worthwhile decision:

> A client's father gave her his ten-year-old refrigerator when she moved into her home. The refrigerator was destroyed that same year in a house fire. With an actual cash value policy, she would have received $50 for her refrigerator and would have spent $1,650 out of pocket to replace it with a new one that cost $1,700; however, if she had a replacement cost policy, she may have received the entire $1,700 from her insurer.

Personal Property

While homeowners' policies cover most personal property, certain valuable items such as expensive jewelry, artwork, or silverware may have limited coverage. Clients with valuable family heirlooms or other expensive items may want to consider a "floater," a separate policy that provides insurance for specific valuables.

Premium

A payment required by an insurer to provide insurance for a specified period of time.

Medical Payment Coverage

Medical payment coverage reimburses policyholders for a certain portion of the medical bills incurred when someone becomes injured on a policyholder's property and chooses not to sue. In order for this policy to apply, the individual injured cannot be a resident of the insured home. For example, if a guest trips over a stump and must get stitches, the homeowner's insurer would pay the medical bill up to the amount of coverage on the policy.

Personal Liability Coverage

Personal liability coverage provides **funding** for a defense lawyer or legal judgment if a policyholder is sued for a negligent act that led to an injury of a guest. For example, if a person becomes injured by tripping over clutter in a home that is not theirs, they may choose to sue the homeowner for negligence.

Funding

Personal liability coverage provides funding only up to a certain limit. Those who need a larger amount of liability protection can purchase an "umbrella" policy, which kicks in when a limit on the main coverage is reached.

Add-Ons

Add-ons are often referred to as "riders" and "endorsements." Common add-ons include:

- Earthquake or Flood Insurance: Typical homeowners insurance policies do not cover damage from earthquakes or floods, so clients who live in areas with high risk for either of these disasters might consider purchasing additional coverage.
- Business Merchandise Coverage: Those who have home businesses or have products in their home, which they sell online, might consider protecting the value of their merchandise through this coverage.
- Incidental Business Liability: This coverage is particularly beneficial for those with a small home business, which brings customers to the home such as a babysitting business. It helps protect against liability claims related to the business.

While these are the most common add-ons, others do exist. Housing counselors can best advise their clients if they first review the types of insurance recommended for their region.

Minimum required insurance coverage varies by lender. Not all of the above mentioned types of coverage would be required for all homeowners to purchase.

Earthquake Insurance

Counselors may suggest that clients living in regions susceptible to earthquakes purchase an earthquake insurance add-on. Let's review some common questions that clients may have about earthquake insurance and simple answers that counselors can provide.

Questions and Answers about Earthquake Insurance

Who do you recommend gets it?

There are no federal or state regulations that require homeowners to get earthquake insurance; however, if your home is completely destroyed in an earthquake, you will most likely need to pay to rent or buy another home while you continue to pay the mortgage on your original home. This could severely affect your financial security. So, I recommend that you evaluate the likelihood of earthquakes in your area using seismic hazard maps created by the U.S. Geological Survey and purchase earthquake insurance if your home is in a high-risk region.

What is included?

Generally speaking, earthquake insurance covers damages to the home or its contents caused by an earthquake. For example, walls, appliances, and plumbing may be repaired or replaced.

What is excluded?

Every policy will specify the damages that it won’t cover,in addition to establishing those it will cover, so it’s essential to read the policy thoroughly. For example, when an earthquake causes a flood, tidal wave, tsunami, or otherwise, the damage caused by the flood may not be covered.

What affects the cost?

The policy price may increase if your home is:

- A wood frame structure.
- An older building that is not designed to withstand earthquakes.
- A high-risk area for earthquakes.

Although earthquake insurance may be expensive and typically requires a very high deductible (often up to $4,000), if your home is completely destroyed, the insurer will pay for it to be rebuilt, and the investment will be well worth it.

Flood Insurance

Counselors will also recommend that clients consider flood insurance to protect their homes. Depending on the property location, some clients may want to or may be required to add flood insurance to their homeowners' insurance packages. Here are some simple ways housing counselors can answer frequently asked questions about flood insurance.

Questions and Answers about Flood Insurance

Who do you recommend gets it?

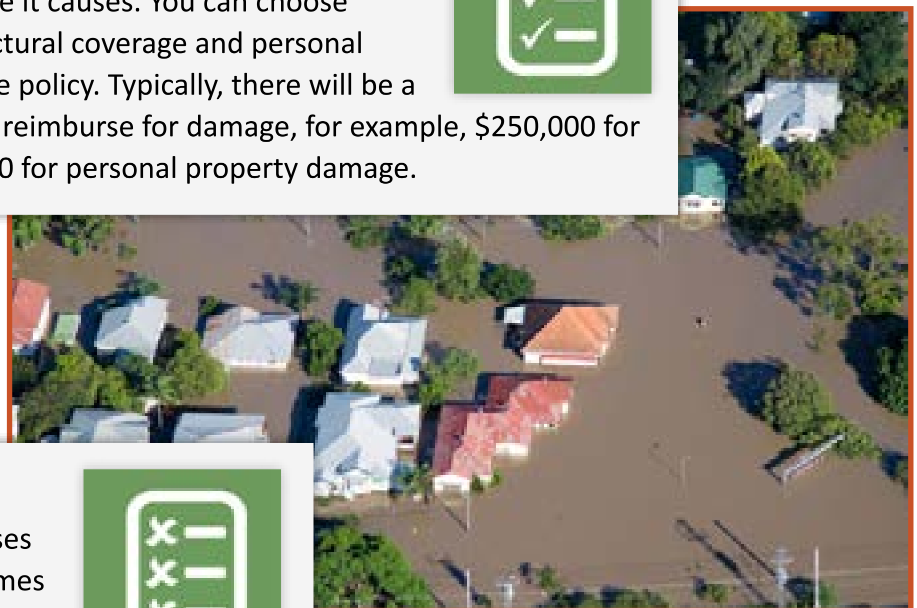
If you live in an area designated as a high-risk flood zone by the Federal Emergency Management Agency (FEMA), you are required to buy flood insurance. To determine the risk level, put the property address into the FEMA Flood Map Service Center's flood risk profile. https://msc.fema.gov/portal/search

You are not mandated by law to purchase flood insurance if your home is not in a high-risk flood zone as designated by FEMA; however, based on data showing that individuals who do not live in high-risk areas submit a quarter of NFIP claims and receive one-third of disaster assistance for flooding, FEMA strongly recommends flood insurance for everyone. Furthermore, lenders occasionally require borrowers outside of high-risk areas to purchase flood insurance.

According to NFIP, "Homes and businesses with mortgages from federally regulated or insured lenders in high-risk flood areas are required to have flood insurance. While flood insurance is not federally required if you live in a moderate-to-low risk flood area, it is still available and strongly recommended." Additionally, a lender may require flood insurance

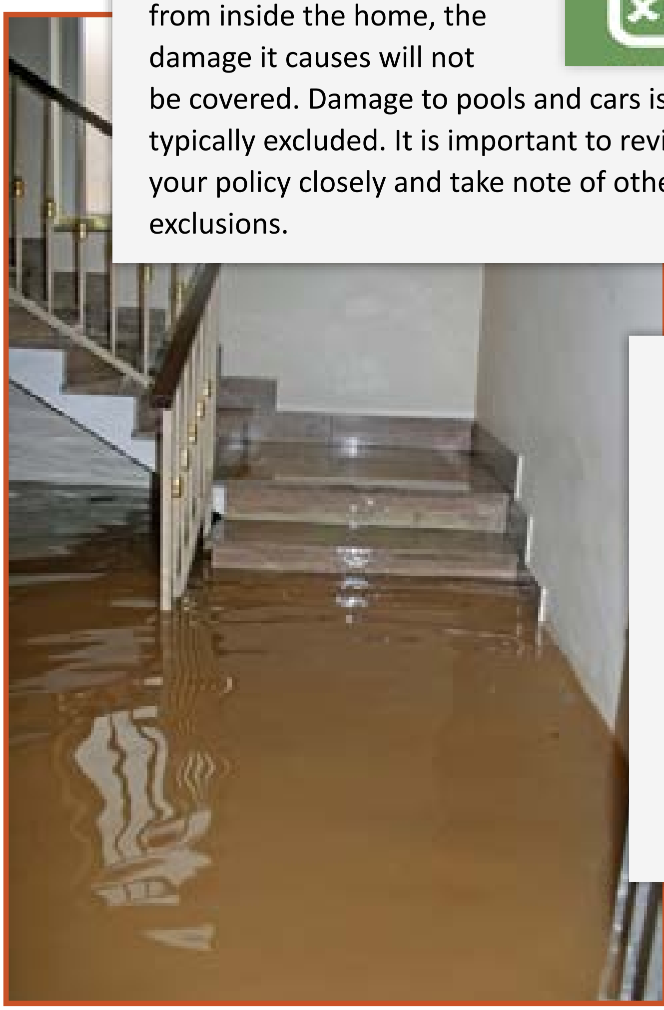
What is included?

When water that floods a home comes from outside your home, this insurance will cover damage it causes. You can choose whether to purchase both structural coverage and personal property coverage as part of the policy. Typically, there will be a cap to the amount insurers will reimburse for damage, for example, $250,000 for structural damage and $100,000 for personal property damage.



What is excluded?

When the water that causes flooding in your home comes from inside the home, the damage it causes will not be covered. Damage to pools and cars is also typically excluded. It is important to review your policy closely and take note of other exclusions.



What affects the cost?

The location of your home will be the biggest factor in determining the cost of your insurance. While the average policy costs $650 a year, the premium for homes in high-risk areas can be up to several thousand dollars per year. It is recommended to most homebuyers to research the cost of flood insurance before closing on a home because of the added expense, which could make a home unaffordable.

Knowledge Check 14

Match the insurance policy or coverage to the situation for which it would be used in response.

A. Personal Liability Coverage
B. Structure Coverage
C. Medical Payment Coverage
D. Earthquake Insurance
E. Loss of Use Coverage

___ 1. A family must rent an apartment for one month while their home is being repaired after a windstorm.

___ 2. A gutter system is destroyed in a hailstorm and must be repaired.

___ 3. A guest gets carbon monoxide poisoning from a home that has a gas leak and no carbon monoxide detector and sues the homeowner.

___ 4. A wall of a home collapses during an earthquake and must be rebuilt.

___ 5. A guest at a home slips on a wet floor and breaks a bone. They do not sue the homeowner.

Knowledge Check 15

During a pre-purchase counseling session, a client mentions that he wants to make an offer on a home situated near a stream that historically floods in heavy rain storms. Which statement would be an appropriate response for a housing counselor to give him?

A. I recommend that you purchase homeowners insurance because it will cover damage done to your home if flooded by water from the nearby stream.
B. It is important that you get medical payment coverage if you are going to live near a stream. There are many ways your children could get injured playing in or near the stream, and this coverage will pay for medical bills when that occurs.
C. I would advise you to purchase earthquake insurance if you decide to close on that house. Earthquakes can often cause massive waves in bodies of water, which could flood nearby homes. With earthquake insurance, any damage done by these types of floods will be covered.
D. Before you close on the home, it may be wise to factor in the cost of flood insurance. Since your home will be next to a stream, flood insurance could be critical; however, the added annual expense of flood insurance may make the home an unaffordable option for you.

The Closing Agent

The last homebuying team member we'll discuss in this module is the closing agent. The closing agent works closely with the real estate agent or broker during the last stage of buying a home, known as 'closing on the home.'

You can help clients prepare for this step by answering two common questions.

What happens at the closing appointment?

The title will officially be changed to your name, and you will receive the keys to the home. There is a large amount of paperwork involved in the process as well.

Agreement of Sale

A contract for the purchase/sale, exchange, or other conveyance of real estate between parties. The contract must be in writing, contain the full names of the buyer(s) and seller(s), identify the property address or legal description, identify the sales price, and include signatures by the parties. Sales contracts are also known as agreements of sale, purchase agreements, or contracts for sale.

What can I do to prepare for closing?

There are three important things to do in preparation for closing:

1. Ensure that you have all of the funds for closing costs and that they are readily available. They are typically due at this time.
2. Gather all of the paperwork you have received during the homebuying process. It will be helpful to have this paperwork at the closing appointment.
3. Review the agreement of sale before closing to ensure it protects your interests. You can consult with a real estate attorney if you need help, or you can review the documents with a housing counselor to better understand them. If you do not have an attorney or counselor review the agreement of sale before closing, it may still be beneficial to do so after closing.

Knowledge Check 16

Which best describes the home inspection and closing process?

A. Not all closing costs are due at closing.
B. There is no value in having a real estate attorney or housing counselor review the agreement of sale before closing.
C. Home inspectors estimate the value of a home and make certain it is marketable.
D. Your clients will receive the keys and the title when they give the seller their earnest money.

SUMMARY

In this module, you learned to:

1. Evaluate a client's readiness to purchase a home by discussing their income, credit, savings, and homeowner responsibility.
2. Demonstrate knowledge about the process of selecting and purchasing a home and the team of professionals involved.
3. Comprehend the financing process, including choosing a lender and understanding loan products.
4. Evaluate a client's completed Uniform Residential Loan Application (Form 1003) for any general deficiencies.
5. Apply knowledge of mortgage regulations and lender disclosures, including the Real Estate Settlement Procedures Act (RESPA), Truth in Lending Act (TILA), TILA-RESPA Integrated Disclosure (TRID) and Equal Credit Opportunity Act (ECOA), to a discussion about how these laws relate to a client's specific circumstances.
6. Apply knowledge of common abusive lending practices and loan scams to help the client avoid similar situations.
7. Explain insurance terms and concepts of at least three types of insurance policies to identify the risk mitigated by each type of insurance policy.

Appendix

Knowledge Check Answer Key

1. **Correct matched items:**

(A) Ready to Buy a Home	(B) May not be Ready
1. Is interested in learning how to do home repairs—Homeowners must assume responsibilities related to home repairs, home maintenance, and yard work. A client who is willing to takes steps such as learning basic home repair skills, adding a budget item for home repairs and home maintenance projects, or creating a maintenance plan for major household systems demonstrates readiness for these responsibilities.	2. May need to relocate to live closer to an aging parent in the next year or two—To ensure that homeowners can recoup the homebuying and selling costs, it can be beneficial to remain in the home for several years. Clients who may need to move in the near future may not be suited for immediate homeownership.
5. Earns an annual gross income of $39,000 in a region where the average homwe price is $98,000—Clients can likely afford to purchase a home if the average home price in their region is equal to or less than their annual gross income multiplied by three.	3. Earns an annual gross income of $26,000 in a region where the average home price is $108,000—When a client's annual gross income is less than one third of the average home price in the desired area, the client may not be ready to purchase a home.
6. Has credit score of 700—Individuals with a credit score of 700 will likely have several options for mortgage packages, and thus, purchasing a home could be a good option. On the other hand, individuals with credit scores below 640 often are advised to improve their credit scores before purchasing homes so they do not incur additional costs to obtain a mortgage.	4. Paid bills late four times in the last year—Those who have not yet established a habit of paying bills on time may not be ready to purchase a home.

(A) Ready to Buy a Home	(B) May not be Ready
	7. Changed jobs three times over the past two years, switching from administrative services to customer service to retail—Homeowners should have a consistent income in a similar field of work to demonstrate their ability to make monthly home payments.

2. **(D) Options A, B, and C**

   Debt-to-income ratios, annual gross income, and savings are all factors used to determine how much a client can afford to spend on purchasing a home.

   Incorrect answers: (A) Debt-to-income ratios, (B) Annual gross income, (C) Savings, and (E) None of the above—More than one factor is used to determine how much a client can afford to spend on a home purchase.

3. **Correct matched items:**

   (E) Lender: 1. A person or company that makes loans for real estate purchases. "Loan officer" is a related term that refers to a representative of a lending or mortgage company who is responsible for soliciting homebuyers and for qualifying and processing loans.

   (C) Assessor: 2. A government official responsible for determining the value of a property for taxation purpose.

   (A) Home Inspector: 3. A professional who conducts an inspection of the home's structure and mechanical systems to determine quality, soundness, and safety. They make the potential homebuyer aware of any repairs that may be necessary.

   (B) Underwriter: 4. A lender representative who analyze a loan application. They evaluate the borrower's credit history and a judgment of the property value to determine the lending risk and the borrower's capacity to repay the loan.

   (D) Appraiser: 5. A professional who gives an estimate of a property's fair market value based on the sales of comparable homes in the area and on the property's features.

4. **(D) A home inspector is typically paid directly by the homebuyer.**

   A homebuyer typically pays the home inspector directly. Home inspectors are professionals who conduct an inspection of a home's structure and mechanical systems to determine quality, soundness, and safety.

   Incorrect answers: (A) A real estate agent or broker is typically an attorney or works for an escrow company. They oversee the final transaction in property purchase, at which time the title is transferred from the seller to the buyer—The person described here is a closing agent. A real estate agent or broker is an individual who is licensed to negotiate and arrange real estate sales for a commission; (B) The lender requires an assessment of the home by a home inspector before loan approval—An assessment by an appraiser is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property. A home inspection is not required by the lender but is an advisable step for the homebuyer to pursue; and (C) An insurance agent is also known as a settlement agent—A closing agent is often called a settlement agent. An insurance agent is a person employed to sell insurance policies.

5. **(B) Have all potential lenders pull credit within a 30-day window.**

   It is best to have potential lenders pull a homebuyer's credit report within a 30-day window to reduce the negative impact on a credit score.

   Incorrect answers: (A) Never speak with lenders before settling on a home—Clients will need to select a lender before making an offer if a home seller requires them to have pre-approval; (C) Mortgages with adjustable rates are always best—While an ARM may be beneficial for certain clients under the right market conditions, fixed-rate mortgages typically offer more stability and better options for homebuyers; and (D) Choose whichever lender is most prompt in returning your phone calls—Clients should select a lender who commonly issues the type of product they want and offers the best rates.

6. **(B) Student loans—Debt information including student loans, liabilities on credit report, and alimony must be furnished on the URLA.**

   Incorrect answers: (A) Child support—While income information is required, a borrower may choose not to have child support considered for repayment of a mortgage loan; (C) Borrower ethnicity—The form asks about demographics such as ethnicity, sex, and race, but borrowers are not required to provide this information; (D) Referrals of past landlords—The URLA form does not request that applicants provide referrals from their past landlords.

7. **Correct True or False items:**

(T) True	(F) False
A. It is improper for an appraiser to consider the racial or religious background of a neighborhood's residents to determine the value of a home—Appraisers should not consider factors such as racial or religious background to determine the value of a home.	D. Homebuyers rarely are allowed to see the appraisal information and for that reason are encouraged to get a home inspection—For first lien applications, the lender is required to share the appraisal information with clients. It is helpful for clients to review the appraisal report with you in order to identify any improper factors used to determine the home's value. Whether or not clients view the appraisal, they should have a home inspection done, especially since the two processes are different from one another.
B. Lenders hire appraisers—Lenders hire appraisers to estimate the value of a home to make certain it will support the mortgage amount. Lenders also use appraisals as a tool to identify health and safety issues.	
C. Homebuyers can cancel the offer contract if the contract includes a contingency clause—Homebuyers do have the right to cancel an offer contract if it includes a contingency clause.	

8. **Correct Answers: (B) Truth in Lending Act, or TILA, (E) Equal Credit Opportunity Act, or ECOA**

   TILA applies to manufactured home loans for the borrower's principal residence regardless of how it is titled. ECOA applies to all loans regardless of collateral.

   Incorrect Answers: (A) Real Estate Settlement Procedures Act, or RESPA, (C) TILA-RESPA Integrated Disclosure Rule, or TRID—RESPA and TRID apply only to real estate mortgage loans, (D) Home Ownership and Equity Protections Act, or HOEPA—when a manufactured home is classified as personal property, the protections are less likely to apply.

9. **.(C) Loan Estimate**

   The Loan Estimate is a lender disclosure required by RESPA, which obligates lenders to provide an estimate of mortgage loan closing costs and fees, including prepaid items, escrow items, and lender charges.

   Incorrect answers: (A) URLA, (B) ATR/QM, and (D) Closing Document

10. **(C) TILA**

    The Truth in Lending Act, or TILA, requires that borrowers receive disclosures about important conditions and terms of credit, including the Annual Percentage Rate, or APR, the monthly payment, the total amount of finance charge to be paid, whether the borrower can prepay the loan without a penalty, and other important terms.

    Incorrect answers: (A) ECOA, (B) RESPA, and (D) HOEPA

11. **(B) RESPA**

    The Real Estate Settlement Procedures Act, or RESPA, requires that borrowers receive disclosures that describe the closing costs, lender servicing and escrow account practices, and business relationships.

    Incorrect answers: (A) ECOA, (C) TILA, and (D) HOEPA

12. **(A) ECOA**

    The Equal Credit Opportunity Act, or ECOA, requires lenders to make credit available equally without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

    Incorrect answers: (B) RESPA, (C) TILA, and (D) HOEPA

13. **(A) A new homeowner should purchase the same homeowners insurance policy as the previous homeowner.**

    A new homeowner may have a different lifestyle than the previous homeowner and may need different insurance coverage.

    Incorrect answers: (B) Do research up front to get the right type and amount of insurance—Clients should avoid waiting until a disaster hits to find out whether or not they have the right type and amount of insurance. It is best to do this research up front; (C) Insure the home and personal property—Most lenders require clients to purchase homeowners insurance in order to avoid a large financial loss if the property is significantly damaged or destroyed; and (D) Shop around to get the best insurance rates—Rates of insurance agents may vary, so it is good to shop around for the best deal.

14. **Correct matched items:**

    (E) Loss of Use Coverage: 1. A family must rent an apartment for one month while their home is being repaired after a windstorm.

    (B) Structure Coverage: 2. A gutter system is destroyed in a hailstorm and must be repaired.

    (A) Personal Liability Coverage: 3. A guest gets carbon monoxide poisoning from a home that has a gas leak and no carbon monoxide detector and sues the homeowner.

    (D) Earthquake Insurance: 4. A wall of a home collapses during an earthquake and must be rebuilt.

    (C) Medical Payment Coverage: 5. A guest at a home slips on a wet floor and breaks a bone. They do not sue the homeowner.

15. **(D) Before you close on the home, it may be wise to factor in the cost of flood insurance. Since your home will be next to a stream, flood insurance could be critical; however, the added annual expense of flood insurance may make the home an unaffordable option for you.**

    It may be wise to factor in the cost of flood insurance. While the average policy costs $650 a year, the premium for homes in high-risk areas can be up to several thousand dollars annually.

    Incorrect answers: (A) I recommend that you purchase homeowners insurance because it will cover damage done to your home if flooded by water from the nearby stream—Most regular homeowners' policies will not cover damage caused by earthquakes or flooding; (B) It is important that you get medical payment coverage if you are going to live near a stream. There are many ways your children could get injured playing in or near the stream, and this coverage will pay for medical bills when that occurs—In order for medical payment coverage reimbursement to apply, the individual injured cannot be a resident of the insured home; and (C) I would advise you to purchase earthquake insurance if you decide to close on that house. Earthquakes can often cause massive waves in bodies of water, which could flood nearby homes. With earthquake insurance, any damage done by these types of floods will be covered—When an earthquake causes a flood (whether a tidal wave, tsunami, or other phenomenon), the damage caused by the flood may not be covered. If the client is in a region with frequent earthquakes, he may consider purchasing both flood and earthquake insurance.

16. **(A) Not all closing costs are due at closing.**

While most closing costs are due at closing, partial funds can be due at the time of application. Clients can prepare by ensuring that they have these funds available.

Incorrect answers: (B) There is no value in having a real estate attorney or housing counselor review the agreement of sale before closing.—It is best if this review takes place prior to closing; (C) Home inspectors estimate the value of a home and make certain it is marketable—Appraisers are hired by lenders to estimate the value of a home and make certain it is marketable; and (D) Your clients will receive the keys and the title when they give the seller their earnest money—Clients receive keys and the title at the closing appointment. The earnest money is typically given to the buyer during the settlement process.

Resources

10 Important Questions to Ask Your Home Inspector

hudexchange.info/resources/documents/10-Important-Questions-to-Ask-Your-Home-Inspector.pdf

Also available in Spanish: www.hudexchange.info/resources/documents/10-Important-Questions-to-Ask-Your-Home-Inspector-Spanish-Version.pdf

1. What does your inspection cover?

The inspector should ensure that their inspection and inspection report will meet all applicable requirements in your state if applicable and will comply with a well-recognized standard of practice and code of ethics. You should be able to request and see a copy of these items ahead of time and ask any questions you may have. If there are any areas you want to make sure are inspected, be sure to identify them upfront.

2. How long have you been practicing in the home inspection profession and how many inspections have you completed?

The inspector should be able to provide their history in the profession and even a few names as referrals. Newer inspectors can be very qualified, and many work with a partner or have access to more experienced inspectors to assist them in the inspection.

3. Are you specifically experienced in residential inspection?

Related experience in construction or engineering is helpful, but is no substitute for training and experience in the unique discipline of home inspection. If the inspection is for a commercial property, then this should be asked about as well.

4. Do you offer to do repairs or improvements based on the inspection?

Some inspector associations and state regulations allow the inspector to perform repair work on problems uncovered in the inspection. Other associations and regulations strictly forbid this as a conflict of interest.

5. How long will the inspection take?

The average on-site inspection time for a single inspector is two to three hours for a typical single-family house; anything significantly less may not be enough time to perform a thorough inspection. Additional inspectors may be brought in for very large properties and buildings.

6. How much will it cost?

Costs vary dramatically, depending on the region, size and age of the house, scope of services and other factors. A typical range might be $300-$500, but consider the value of the home inspection in terms of the investment being made. Cost does not necessarily reflect quality. HUD Does not regulate home inspection fees.

7. What type of inspection report do you provide and how long will it take to receive the report?

Ask to see samples and determine whether or not you can understand the inspector's reporting style and if the time parameters fulfill your needs. Most inspectors provide their full report within 24 hours of the inspection.

8. Will I be able to attend the inspection?

This is a valuable educational opportunity, and an inspector's refusal to allow this should raise a red flag. Never pass up this opportunity to see your prospective home through the eyes of an expert.

9. Do you maintain membership in a professional home inspector association?

There are many state and national associations for home inspectors. Request to see their membership ID, and perform whatever due diligence you deem appropriate.

10. Do you participate in continuing education programs to keep your expertise up to date?

One can never know it all; the inspector's commitment to continuing education is a good measure of their professionalism and service to the consumer. This is especially important in cases where the home is much older or includes unique elements requiring additional or updated training.

Atlanta Housing

https://www.atlantahousing.org/

Closing Disclosure

www.consumerfinance.gov/owning-a-home/closing-disclosure/

FPB Rural and Underserved Counties List

https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/rural-and-underserved-counties-list/

Colorado Department of Local Affairs, Housing Division

www.colorado.gov/dola/division-housing

Consumer Finance Protection Bureau Mortgage Complaint

www.consumerfinance.gov/complaint/#mortgage

FEMA

www.fema.gov

FEMA Flood Map Service Center

https://msc.fema.gov/portal/search

Fannie Mae Titling a Manufactured Home as Real Property by State

singlefamily.fanniemae.com/originating-underwriting/titling-manufactured-homes-real-property?utm_source=sfmc&utm_medium=email&utm_campaign=10965074&utm_term=5121337&utm_content=42495993&sfmc_id=653889638#mh-titling-by-state

Federal Home Loan Banks

www.fhlbanks.com

FHFA Language Access Policy

www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Language-Access.aspx

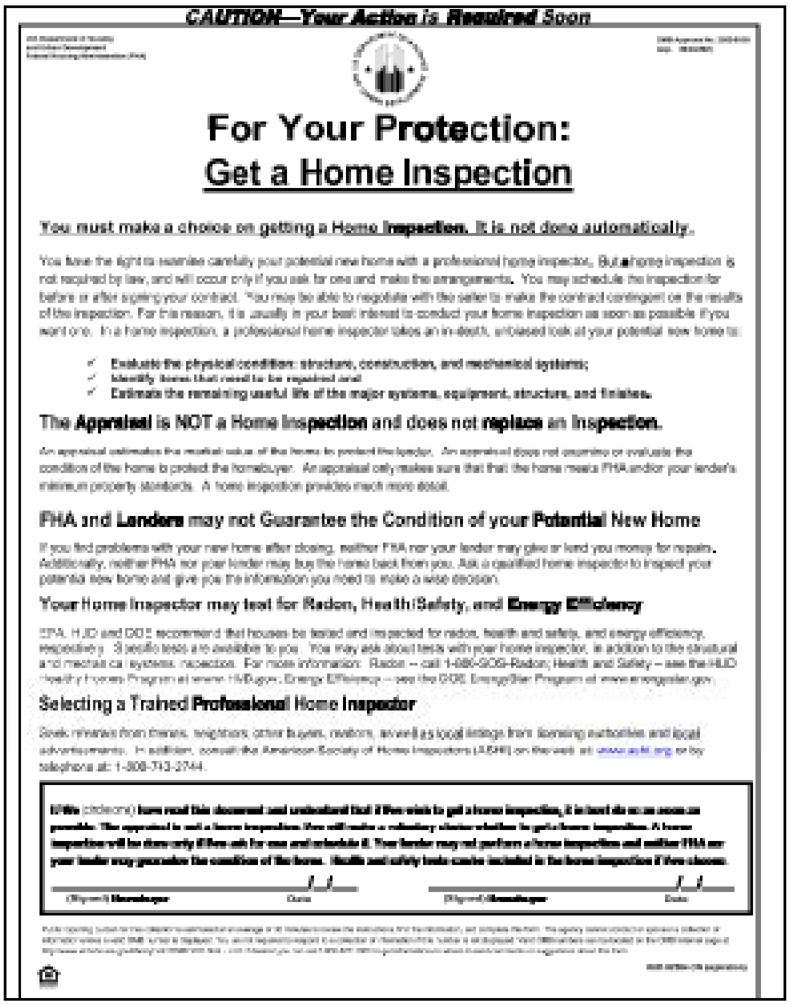
FTC Complaint Assistant

https://reportfraud.ftc.gov/#/assistant

For Your Protection Get a Home Inspection Pamphlet

https://www.hud.gov/sites/dfiles/OCHCO/documents/92564-CN.pdf

Also available in Spanish: www.hudexchange.info/resources/documents/For-Your-Protection-Get-a-Home-Inspection-Spanish.pdf



CAUTION—Your Action is Required Soon

For Your Protection:
Get a Home Inspection

You must make a choice on getting a Home Inspection. It is not done automatically.

The Appraisal is NOT a Home Inspection and does not replace an Inspection.

FHA and Lenders may not Guarantee the Condition of your Potential New Home

Your Home Inspector may test for Radon, Health/Safety, and Energy Efficiency

Selecting a Trained Professional Home Inspector

Good Faith Estimate Form

www.hud.gov/sites/documents/1-GFE.pdf

Habitat for Humanity

www.habitat.org

Housing Counseling: New Certification Requirements Frequently Asked Questions

www.hudexchange.info/housing-counseling/faqs/

Housing Counseling Outreach: Flyers, Brochures, and Posters

www.hudexchange.info/programs/housing-counseling/housing-counseling-works/#flyers-posters-fact-sheets-and-videos

HUD Homeownership Assistance: California

www.hud.gov/states/california/homeownership/buyingprgms

HUD.gov

www.hud.gov

HUD Booklet on Shopping for a Mortgage

www.hud.gov/sites/documents/BOOKLET.pdf

HUD Buying a Home

www.hud.gov/topics/buying_a_home

HUD Homeownership Assistance by State

www.hud.gov/states

HUD Home Wishlist Guide

www.hud.gov/sites/documents/WISHLIST-EN.pdf

HUD Manufactured-Homeowner Fact Sheet

www.hud.gov/program_offices/housing/rmra/mhs/csp/mhcqa/factsheet

HUD Manufactured Housing Standards FAQ

www.hud.gov/program_offices/housing/rmra/mhs/faqs

HUD Model Manufactured Home Installation Standards

www.ecfr.gov/current/title-24/subtitle-B/chapter-XX/part-3285

Loan Estimate

www.consumerfinance.gov/owning-a-home/loan-estimate

National Flood Insurance Program

https://www.floodsmart.gov/am-i-required-have-flood-insurance

New Jersey Department of Community Affairs

www.state.nj.us/dca

Office of Manufactured Housing Programs

www.hud.gov/program_offices/housing/rmra/mhs

Seismic Hazard Map

https://www.usgs.gov/programs/earthquake-hazards/hazards

Uniform Residential Appraisal Report

www.fanniemae.com/content/guide_form/1004.pdf

Uniform Residential Loan Application

Fannie Mae www.fanniemae.com/content/guide_form/urla-borrower-information.pdf

Freddie Mac sf.freddiemac.com/content/_assets/resources/pdf/forms/urla_borrower_information.pdf

VA Benefits: Home Loans

www.benefits.va.gov/homeloans