



SECURING THE AMERICAN DREAM: Navigating Mortgages and Foreclosures

From State Senator Robert D. Robbins

Dear Friend,

With the federal government offering a tax credit of up to \$8,000 for first-time buyers, many people are considering the purchase of a new home. In addition, many older homeowners are considering reverse mortgages to supplement their retirement income or pay for expenses.

Since the home is typically a family's largest single investment, people should be careful when securing a mortgage or a reverse mortgage. And, unfortunately, the consequences of bad decisions, or even just bad luck, can be foreclosure.

This report provides some basic information on financial decisions involving finding a home, securing a mortgage, avoiding foreclosures and determining whether a reverse mortgage is right for you.

More detailed information and a number of brochures designed to help Pennsylvanians make good financial decisions are available through the Pennsylvania Department of Banking at its website: www.banking.state.pa.us



Sincerely,

Bob Robbins
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Home Buying Basics

First-time homebuyers face many choices - choices that can affect their financial well-being for years to come. The procedure can be complicated, so it is essential that prospective buyers take the time to learn about the basics of the home buying process.

Lenders use a number of factors to evaluate potential borrowers, including income, employment and credit history. Your credit report is used to calculate your credit score - a number that measures your creditworthiness; the higher the score, the better your chances of getting a loan with a competitive rate and terms.

Having a loan pre-approval can help in several ways. It provides a basic idea of how much money you qualify for, which should determine what houses you can afford. A pre-approval also lets sellers and real estate agents know that your offer is valid.

Many lenders require a down payment of about 20 percent of the home's purchase price when buying a home. Those who can't afford a large down payment will likely have to secure private mortgage insurance.

Many homebuyers wrongly assume that real estate agents are working for them. In most cases, the real estate agent is working to get the best price for the seller and not the lowest price for you. One way to make sure your best interests are being looked out for is to hire your own real estate agent, known as a buyer's agent. Ideally, a buyer's agent is independent and does not work for the same company as the seller's agent.

Closing, also known as settlement, is the transfer of ownership from the seller to the buyer.

Some basic ways to streamline the home buying process include:

- Before applying for a loan, review your credit report and correct any mistakes. Credit reports are available from three different companies (Equifax, Experian and

TransUnion) for free at www.annualcreditreport.com or 1-877-322-8228.

- Compare offers from a variety of lenders, such as banks, credit unions and mortgage companies to make sure you are getting a competitive deal. Beware of lenders who make big promises or who won't put things in writing.
- Prospective buyers - not the seller or the real estate agent - should hire a home inspector. Buyers should also choose a repair contractor if needed and inspect the finished work. If repairs are needed, they should be made before you purchase the home, or you could ask to have the repair costs deducted from the price.
- Ask the lender and real estate agent ahead of time for copies of the documents you'll need to sign. Read them carefully to make sure you are getting the rate and terms you were promised. You should also have someone else like an attorney, housing counselor or financial advisor read over your documents.

Additional Resources

Pennsylvania Housing Finance Agency (PHFA)
1-800-342-2397
www.phfa.org

U.S. Department of Housing and Urban Development (HUD)
1-800-569-4287
www.hud.gov

Pennsylvania Department of Banking
1-800-PA-BANKS
www.banking.state.pa.us

Pennsylvania Office of the Attorney General
1-800-441-2555
www.attorneygeneral.gov

Securing a Mortgage

For many people, buying or refinancing a home is the single largest and most complex financial transaction they ever make. Unfortunately, thousands of unsuspecting borrowers fall victim each year to unscrupulous lenders who take their money and, in some cases, their homes.



crease in the future. A typical mortgage takes 30 years to pay off. However, the term can be shorter or longer.

You can negotiate for a lower rate, reduced or waived fees, or to change other terms you don't like. Of course, none of this matters if you can't afford the

The first step to getting a fair loan is finding an honest lender. Contact several lending institutions, including banks, credit unions and mortgage companies. Ask for references. Check with your local Better Business Bureau or the Office of Attorney General for any complaints against the lender. To find out if a lender, broker or other entity is licensed in Pennsylvania, call 1-800-PA-BANKS or visit www.banking.state.pa.us.

All information on a loan application must be accurate and truthful. Beware of any lender who encourages you to give false information, such as overstating your income, on an application.

Ask each lender to provide a Good Faith Estimate and a Truth in Lending Disclosure. These documents outline rates, payments, and other terms. First, look at the annual percentage rate (APR). In general, lower is better. A fixed APR will remain the same for the life of the loan. An adjustable rate mortgage (ARM) means your monthly payments could in-

monthly payment. Failing to pay your mortgage can lead to foreclosure and possibly the loss of your home.

Read all documents carefully before you sign them. Never sign blank forms and ask for copies of everything you sign. Before you agree to an offer, ask yourself:

- **Am I borrowing too much?** Your loan should be based on your realistic ability to repay, not the **value or equity in your home.**
- **Do I understand all the fees and do they seem reasonable?** If not, ask the lender to explain them or try to get them removed.
- **What's included in the monthly payment?** Part of it may go into an escrow account towards property taxes and homeowner's insurance. If not, you'll need to add those expenses to your budget.
- **Are the terms and conditions on the agreement the same as I was promised?** If not, make sure the documents are corrected before you sign.

Is a Reverse Mortgage Right for You?

In these tough economic times, many senior citizens are turning to reverse mortgages as way to supplement their retirement income, pay for medical expenses or home improvements, or pay off an existing mortgage.

Reverse mortgages allow homeowners age 62 and older to withdraw equity from their homes. The money does not have to be paid back until the borrower dies, sells the home, or permanently moves out. Reverse mortgage costs can vary from lender to lender and paperwork and processing fees can total as much as \$6,000. Therefore, homeowners should shop around and compare offers.

Reverse mortgage counseling is available in-person or by telephone. Anyone considering a reverse mortgage is advised to seek counseling from an agency approved by the U.S. Department of Housing and Urban Development (HUD) or the Pennsylvania Housing Finance Agency (PHFA).

Other points to consider include:

- Under a reverse mortgage, homeowners are still responsible for paying property taxes, homeowners' insurance and upkeep on the home.
- Because of the high costs, a reverse mortgage is not a good idea for those planning to sell their homes in a few years.
- Funds from a reverse mortgage should not be used to finance an investment or annuity. There is no safe investment that can earn returns high enough to recoup the costs of the loan.
- Be wary of sales pitches. There is no requirement to buy other financial products or services to secure a reverse mortgage.
- The amount of money owed on a reverse mortgage increases over time. Monthly servicing fees, insurance premiums and interest charges are added to the borrowed amount, and future interest calculations are based on the new total.

Facing Foreclosure

Owning a home is part of the American dream. Unfortunately, foreclosure can turn the dream into a real-life nightmare. You may lose your home and find it more difficult to qualify for credit in the future.

The worst thing you can do in a financial crisis is ignore the problem. Do not ignore letters or phone calls from your lender. If you can't keep up with your mortgage, call your lender's loss mitigation department right away. Most lenders want to avoid foreclosure as much as you.

Individual situations ultimately determine what options are available. Lenders may be willing to temporarily reduce or suspend mortgage payments, change the loan terms to lower monthly payments, or set up repayment plans.

Filing bankruptcy may halt the foreclosure process. However, recent changes in the law have made this more difficult for certain people. If you can't afford to pay your mortgage and it doesn't appear likely you ever will, you may want to consider selling your home. You could also deed the home to your lender in exchange for ending the foreclosure and minimizing damage to your credit.

The Homeowners' Emergency Mortgage Assistance Program (HEMAP) is a Pennsylvania Housing Finance Agency program that loans money to homeowners who are experiencing financial hardship through no fault of their own and meet other criteria. To date, HEMAP has helped over 35,000 Pennsylvania families through difficult times. Information about the loans is available at www.phfa.org.

Unfortunately, there are people who prey on those facing foreclosure. Unscrupulous lenders often target victims over the phone, through the mail, or by showing up on their doorsteps.

- Never trust an offer that sounds too good to be true.
- Only take advice from sources you can trust, such as a qualified housing or credit counselor.
- Check with an attorney or your mortgage company before entering into an agreement.
- Don't sign documents you don't understand.
- Get all promises in writing.