In this ebook you will find the most comprehensive collection of information on homebuying and homeownership available.

Guide to Mortgage Lock-ins

This booklet was prepared in consultation with the following organizations:

- American Bankers Association
- Appraisal Institute
- Comptroller of the Currency
- Consumer Federation of America
- Credit Union National Association, Inc.
- Federal Deposit Insurance Corporation
- Federal Home Loan Mortgage Corporation
- Federal National Mortgage Association
- Federal Reserve Board's Consumer Advisory Council
- Federal Trade Commission

- Independent Bankers Association of America
- Mortgage Bankers Association of America
- Mortgage Insurance Companies of America
- National Association of Federal Credit Unions
- National Association of Home Builders
- National Association of Realtors
- National Credit Union Administration
- Office of Special Adviser to the President for Consumer Affairs
- Savings and Community Bankers of America
- The Consumer Bankers Association
- U.S. Department of Housing and Urban Development
- Veterans Administration

The Federal Reserve Board and the Office of Thrift Supervision prepared this booklet on mortgage lock-ins in response to a request from the House Committee on Banking, Finance and Urban Affairs and in consultation with many other agencies and trade and consumer groups. It is designed to help consumers understand an important aspect of home financing.

We believe a fully informed consumer is in the best position to make a sound financial choice. This booklet will provide useful basic information about obtaining the terms of credit you really want. It cannot provide all the answers you will need, but we believe it is a good starting point.

A Consumer's Guide to Mortgage Lock-Ins

When you're looking for a mortgage, you're likely to shop among lenders for the most favorable interest rate, and the lowest points and other up-front charges. When you find the most favorable terms and the lender that you want, you'll apply to that lender. But when you get to settlement, will you actually receive the terms you applied or bargained for? Or will you find that the rate has changed-and that your costs have gone up?

Lock-ins on rates and points might offer you a way to ensure that what you shop for is what you get. This brochure explains what these arrangements mean.

All About Lock-Ins

In most cases, the terms you are quoted when you shop among lenders only represent the terms available to borrowers settling their loan agreement at the time of the quote. The quoted terms may not be the terms available to you at settlement weeks or even months later. Therefore, you should not rely on the terms quoted to you when shopping for a loan unless a lender is willing to offer a lock-in.

What Is a Lock-In? A lock-in, also called a rate-lock or rate commitment, is a lender's promise to hold a certain interest rate and a certain number of points for you, usually for a specified period of time, while your loan application is processed. (Points are additional charges imposed by the lender that are usually prepaid by the consumer at settlement but can sometimes be financed by adding them to the mortgage amount. One point equals one percent of the loan amount.) Depending upon the lender, you may be able to lock in the interest rate and number of points that you will be charged when you file your application, during processing of the loan, when the loan is approved, or later.

A lock-in that is given when you apply for a loan may be useful because it's likely to take your lender several weeks or longer to prepare, document, and evaluate your loan application. During that time, the cost of mortgages may change. But if your interest rate and points are locked in, you should be protected against increases while your application is processed. This protection could affect whether you can afford the mortgage. However, a locked-in rate could also prevent you from taking advantage of price decreases, unless your lender is willing to lock in a lower rate that becomes available during this period.

It is important to recognize that a lock-in is not the same as a loan commitment, although some loan commitments may contain a lock-in. A loan commitment is the lender's promise to make you a loan in a specific amount at some future time. Generally, you will receive the lender's commitment only after your loan application has been approved. This commitment usually will state the loan terms that have been approved (including loan amount), how long the commitment is valid, and the lenders conditions for making the loan such as receipt of a satisfactory title insurance policy protecting the lender.

Will Your Lock-In Be in Writing? Some lenders have preprinted forms that set out the exact terms of the lock-in agreement. Others may only make an oral lock-in promise on the telephone or at the time of application. Oral agreements can be very difficult to prove in the event of a dispute.

Some lenders' lock-in forms may contain crucial information that is difficult to understand or that is in fine print. For example, some lock-in agreements may become void through some unrelated action such as a change in the maximum rate for Veterans Administration guaranteed loans. Thus, it is wise to obtain a blank copy of a lenders lock-in form to read carefully before you apply for a loan. If possible, show the lock-in form to a lawyer or real estate professional. It is wise to obtain written, rather than verbal, lock-in agreements to make sure that you fully understand how your lender's lock-ins and loan commitments work and to have a tangible record of your arrangements with the lender This record may be useful in the event of a dispute.

Will You Be Charged for a Lock-In? Lenders may charge you a fee for locking in the rate of interest and number of points for your mortgage. Some lenders may charge you a fee up-front, and may not refund it if you withdraw your application, if your credit is denied, or if you do not close the loan. Others might charge the fee at settlement. The fee might be a flat fee, a percentage of the mortgage amount, or a fraction of a percentage point added to the rate you lock in. The amount of the fee and how it is charged will vary among lenders and may depend on the length of the lock-in period.

What Options Are Available for Setting the Mortgage Terms? Lenders may offer different options in establishing the interest rate and pointsthat you will be charged, such as:

- Locked-In Interest Rate-Locked-In Points. Under this option, the lender lets you lock in both the interest rate and points quoted to you. This option may be considered to be a true lock-in because your mortgage terms should not increase above the interest rate and points that you've agreed upon even if market conditions change.

- Locked-In Interest Rate-Floating Points. Under this option, the lender lets you lock in the interest rate, while permitting or requiring the points to rise and fall (float) with changes in market conditions. If market interest rates drop during the lock-in period, the points may also fall. If they rise, the points may increase. Even if you float your points, your lender may allow you to lock-in the points at some time before settlement at whatever level is then current. (For instance, say you've locked in a 10 1/2 percent interest rate, but not the 3 points that went with that rate. A month later, the market interest rate remains the same, but the points the lender charges for that rate have dropped to 2 1/2.

With your lender's agreement, you could then lock in the lower 2 1/2 points.) If you float your points and market interest rates increase by the time of settlement, the lender may charge a greater number of points for a loan at the rate you've locked in. In this case, the benefit you might have had by locking in your rate may be lost because you'll have to pay more in upfront costs.

- Floating Interest Rate-Floating Points. Under this option, the lender lets you lock in the interest rate and the points at some time after application but before settlement. If you think that rates will remain level or even go down, you may want to wait on locking in a particular rate and points. If rates go up, you should expect to be charged the higher rate.

Because practices vary, you may want to ask your lender whether there are other options available to you.

How Long Are Lock-Ins Valid? Usually the lender will promise to hold a certain interest rate and number of points for a given number of days, and to get these terms you must settle on the loan within that time period. Lock-ins of 30 to 60 days are common. But some lenders may offer a lock-in for only a short period of time (for example, 7 days after your loan is approved) while some others might offer longer lock-ins (up to 120 days). Lenders that charge a lock-in fee may charge a higher fee for the longer lock-in period. Usually, the longer the period, the greater the fee.

The lock-in period should be long enough to allow for settlement, and any other contingencies imposed by the lender, before the lock-in expires. Before deciding on the length of the lock-in to ask for, you should find out the average time for processing loans in your area and ask your lender to estimate (in writing, if possible) the time needed to process your loan. You'll also want to take into account any factors that might delay your settlement. These may include delays that you can anticipate in providing materials about your financial condition and, in case you are purchasing a new house, unanticipated construction delays.

Finally, ask for a lock-in with as few contingencies as possible.

What Happens if the Lock-In Period Expires? If you don't settle within the lock-in period, you might lose the interest rate and the number of points you had locked in. This could happen if there are delays in processing whether they are caused by you, others involved in the settlement process, or the lender. For example, your loan approval could be delayed if the lender has to wait for any documents from you or from others such as employers, appraisers, termite inspectors, builders, and individuals selling the home. On occasion, lenders are themselves the cause of processing delays, particularly when loan demand is heavy. This sometimes happens when interest rates fall suddenly.

If your lock-in expires, most lenders will offer the loan based on the prevailing interest rate and points. If market conditions have caused interest rates to rise, most lenders will charge you more for your loan.

One reason why some lenders may be unable to offer the lock-in rate after the period expires is that they can no longer sell the loan to investors at the lock-in rate. (When lenders lock in loan terms for borrowers, they often have an agreement with investors to buy theseloans based on the lock-in terms. That agreement may expire around the same time that the lock-in expires and the lender may be unable to afford to offer the same terms if market rates have increased.) Lenders who intend to keep the loans they make may have more flexibility in those cases where settlement is not reached before the lock-in expires.

How Can You Speed Up the Approval of the Loan? While the lender has the greatest role in how fast your loan application is processed, there are certain things you can do to speed up its approval. Try to find out what documentation the lender will require from you.

Much of the information required by your lender can be brought with you when you apply for a loan. This may help to get your application moving more quickly through the process. When you first meet with your lender, be sure to bring the following documents:

* The purchase contract for the house (if you don't have the contract, check with your real estate agent or the seller).

* Your bank account numbers, the address of your bank branch and your latest bank statement, plus pay stubs, W-2 forms, or other proof of employment and salary, to help the lender check your finances.

* If you are self-employed, balance sheets, tax returns for 2-3 previous years, and other information about your business.

* Information about debts, including loan and credit card account numbers and the names and addresses of your creditors.

* Evidence of your mortgage or rental payments, such as cancelled checks.

* Certificate of Eligibility from the Veterans Administration if you want a VA-guaranteed loan. Your lender may be able to help you obtain this.

Be sure to respond promptly to your lender's requests for information while your loan is being processed. It is also a good idea to call the lender and real estate agent from time to time. By calling occasionally, you can check on the status of your application, and offer to help contact others such as employers who may need to provide documents and other information for your loan. It is also helpful to keep notes on your contacts with the lender so that you will have a record of your conversations.

Ask About Lock-Ins

When you're ready to settle on your loan, you'll want to get the loan terms that you've locked in. To increase that likelihood, it is important to learn as much as you can about what the lender is promising you before you apply for a loan. Ask for the following information when you shop for a loan:

Lock-Ins and Fees

* Does the lender offer a lock-in of the interest rate and points?

* When will the lender let you lock in the interest rate and points? When you apply? When the loan is approved?

* Will the lock-in be in writing? If the lock-in is not in writing, you will have no record of the lender's agreement with you in case of a dispute.

* Does the lender charge a fee to lock in your interest rate? Does the fee increase for longer lock-in periods? If so, how much?

* If you have locked in a rate, and the lender's rate drops, can you lock in at the lower rate? Does the lender charge you an additional fee to lock in the lower rate?

* Can you float your interest rate and points for now, and lock them in later?

Loan Processing Time

* How long does the lender expect to take to process your loan?

* What has been the lender's average time for processing loans recently?

* Has the lender's loan volume increased? Heavy volume might increase the lender's average processing time.

Expiration of Lock-Ins

* What rate will be charged if the lock-in expires before settlement-the rate in effect when the lock-in expires?

* If you don't settle within the lock-in period, will the lender refund some or all of your application or lock-in fees if you decide to cancel the loan application?

* If your lock-in expires and you want to get another lock-in at the rate in effect at the time of the expiration, will the lender charge an additional fee for the second lock-in?

Complaints About Lock-Ins

Knowing what to look for puts you in a better position to decide whether, when, and how long to lock in mortgage terms. Also, by helping to keep the loan process moving, you can lessen the chance that your lock-in will run out before settlement.

But what if your lock-in does lapse? If you believe that the lapse was due to delays caused by the lender or someone else involved in the loan process, you should try first to reach a mutually satisfactory agreement with the lender. If that effort fails, consider writing to the appropriate state or federal regulatory agency.

Some lender actions, such as offering lock-in terms which are impossible to fulfill, failing to process your loan diligently, or causing your lock-in to expire are improper--and may even be illegal. In addition, because you may have contractual rights under your lock-in or loan commitment, you may want to consult with an attorney. Be aware, though, that complaints may not be resolved as quickly as may be necessary for a home purchase.

Depending upon their authority under applicable state or federal law, regulatory agencies may either attempt to help you resolve your complaint directly or record your complaint and recommend other action.

State Agencies

State consumer protection offices, banking authorities, and offices of the attorney general can be contacted regarding complaints against many lenders doing business in the state. (Some states have enacted legislation to specifically address complaints about mortgage lock-ins.)

Federal Agencies

In addition, some lenders are directly supervised by federal regulatory agencies. You can find out which by contacting the offices below:

Mortgage Companies

Division of Credit Practices
Bureau of Consumer Protection
Federal Trade Commission
601 Pennsylvania Avenue, N.W.
Washington, D.C. 20580
(202) 326-3224

Federally Insured Savings and Loan Institutions and Federally Chartered Savings Banks

Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
(202) 906-6000

State Member Banks of the Federal Reserve System

Division of Consumer and Community Affairs

Board of Governors of the Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, D.C. 20551
(202) 452-3946

National Banks Compliance Management Division
Office of the Comptroller of the Currency
250 E Street, S.W. Washington, D.C. 20219
(202) 874-4810

Federally Insured Non-Member State-Chartered Banks and Savings Banks

Office of Consumer Programs
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429
(800) 424-5488
(202) 898-3536

Federal Credit Unions

National Credit Union Administration
1776 G Street, N.W.
Washington, D.C. 20456
(202) 357-1065 <>

The information contained in this ebook is intended to help you ask the right questions when shopping for a loan. ***It is not a replacement for professional advice. Talk with mortgage lenders, real estate agents, attorneys, and other advisors, about lending practices, mortgage instruments, and your own interests before you commit to any specific loan.***

Guide to Low Down Payments

A consumer's guide to getting your key in the door with as little as five percent down

OWNING A HOME: THE AMERICAN DREAM

If you're dreaming of buying a home, congratulations. You're in good company! Almost two-thirds of the nation's households own their own home.

This section describes how families can get into their own homes with little cash up front. It explains mortgage insurance and how it works, and looks at the two options -- private mortgage insurance and government mortgage insurance.

Why Buy a Home?

Homeownership remains one of the highest goals for many people because of its many benefits. Along with owning your own home comes a sense of security and belonging that cannot be found elsewhere. For many, homeownership represents personal and financial success. There is much personal satisfaction in living in a home that you own. A home is still a valued investment which can have many financial advantages and tax benefits. The amount of interest you pay on a home loan and the real estate taxes you pay on your home are among the few major federal tax deductions. Owning a home is the primary way most people build wealth.

Homeownership is also good for our communities, because families who own their homes are more involved in their local communities and participate in local events.

The rewards of homeownership:

- personal satisfaction
- sense of community
- tax savings
- stability for you and your family
- investment in the future

Obstacles to Homeownership

Still, for many Americans, owning a home continues to remain just slightly out of reach. For more and more families, saving the money for a down payment is the biggest obstacle to homeownership. Many people mistakenly believe that you have to come up with a down payment equal to 20% of the price of a home.

Traditionally, lenders have required that home buyers be able to make a down payment of at least 20% of a home's purchase price to get a home loan or mortgage. However, mortgage lenders will grant home loans to qualifying home buyers with a down payment of as little as 5% of the purchase price, if the mortgage is insured.

In fact, home loans with down payments of less than 20% are increasingly popular. They are called "low down payment mortgages."

This is good news for the millions of home buyers who are finding it difficult to save a large down payment, especially for their first house.

WHAT MAKES LOW DOWN PAYMENT LOANS POSSIBLE?

Simply put, mortgage insurance protects the mortgage lender against financial loss if a homeowner stops making mortgage payments. Lenders usually require insurance on low down payment loans for protection in the event that the homeowner fails to make his or her payments. When a homeowner fails to make the mortgage payments, a default occurs and the home goes into foreclosure. Both the homeowner and the mortgage insurer lose in a foreclosure. The homeowner loses the house and all of the money put into it. The mortgage insurer will then have to pay the lender's claim on the defaulted loan.

For this reason, it is crucial that the family buying the home can really afford it -- not only at the time it is purchased, - but throughout the time period of the loan.

Although the cost of the mortgage insurance is paid by the home buyer, or borrower, the mortgage insurer works directly with the lender.

Mortgage insurance is available to commercial banks, savings & loans and mortgage bankers, all of whom offer mortgage loans to home buyers.

Remember that mortgage insurance is not the same as credit life insurance, also called mortgage life insurance. This type of policy repays an outstanding mortgage balance upon the death of the person who took out the insurance policy.

The Secondary Market

The lender's decision to use mortgage insurance is driven by the requirements of investors in the mortgage market. Because of the losses that could occur, major investors require mortgage insurance on all loans made with low down payments.

The three primary investors in home loans are Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Government National Mortgage Association (GNMA). By purchasing and selling residential mortgages, Fannie Mae and Freddie Mac help keep money available for homes across the country.

Unlike Fannie Mae and Freddie Mac, Ginnie Mae does not actually buy the mortgages. It adds the guarantee of the full faith and credit of the U.S. Government to mortgage securities issued by private lenders.

The Two Choices: Government Insurance and Private Insurance

Now that we have explained how mortgage insurance works and why it is necessary, let's look at the basic kinds of mortgage insurance. Low down payment mortgages can be insured in two ways -- through the government or through the private sector. Mortgages backed by the government are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Farmers Home Administration (FmHA).

The minimum down payment required by FHA is less than 5%. For single-family homes, the standard limit for an FHA-insured mortgage ranges from $67,500 to $151,725 (in certain high-cost areas).

Although anyone can apply for FHA insurance, the other two government mortgage guarantee programs are much more targeted. The VA program is limited to qualified, eligible veterans and reservists. This program is very specialized, so contact your lender for the details. The FmHA insures loans for the construction and purchase of homes in rural communities.

Obtaining conventional financing is the alternative to obtaining a home loan backed by the government. Conventional mortgages are all home loans not guaranteed by the government, including those guaranteed by private mortgage insurers.

Although government and private insurance are based on the same concept of allowing families to get into homes with less cash down, there are many differences between the two. Often, the lender or loan originator will play an important role in suggesting and deciding which insurance is selected.

Home buyers must make a down payment of at least 5% of a home's value to be considered for private mortgage insurance. However, under some special programs, the down payment requirement allows the buyer to use a gift or grant to cover 2% of the 5% down payment required by private mortgage insurers. The gift or grant may come from a friend or relative, or a community group or other organization.

Private mortgage insurance is available on a wide variety of home loans and there is no pre-set limit on the loan amount. Although differences such as these may affect whether the lender prefers to work with government or conventional mortgages, your lender will discuss which one would be better for your situation.

With the wide variety of loans available, home buyers have the freedom to choose the type of loan that best suits their needs. Early on in the home buying process, it is a good idea to meet with several lenders to compare the types of mortgages they offer and shop for the best price and terms. Best of all, working with a mortgage insurer can be very easy -- whether your loan is insured by the FHA or a private mortgage insurance company -- because your lender handles all of the arrangements.

By making lending money to home buyers safer, mortgage insurance helps more families get into homes of their own.

QUALIFYING FOR A LOW DOWN PAYMENT LOAN

Qualifying for a low down payment loan is much like applying for a regular loan.

To be considered for a low down payment loan, you generally need to have:

* sufficient income to support the monthly mortgage payment

* enough cash to cover the down payment

* sufficient cash to cover normal closing costs and related expenses (explained below)

* a good credit background that indicates your payment history or "willingness to pay"

* sufficient appraisal value, which shows the house is at least equal to the purchase price

* in some instances, a cash reserve equivalent to two monthly mortgage payments

Closing costs, or settlement costs, are paid when the home buyer and the seller meet to exchange the necessary papers for the house to be legally transferred. On the average, closing costs run approximately 2% to 3% of the house price. This percentage may vary, depending on where you live.

Closing costs include the loan origination fee (if not already paid), points, prepaid homeowner's insurance, appraisal fee, lawyer's fee, recording fee, title search and insurance, tax adjustments, agent commissions, mortgage insurance (if you are putting less than 20% down) and other expenses. Your lender will give you a more exact estimate of your closing costs.

Points are finance charges that are calculated by the lender at closing. Each point equals 1% of the loan amount. For example, 2 points on a $100,000 loan equals $2,000. Lenders may charge 1, 2 or 3 points in up-front costs in addition to the down payment. The more points you pay, the lower your interest rate will be. In some cases, you may be able to finance the points.

So How Much of a Mortgage Can You Afford?

There are two basic formulas commonly used by lenders to determine how much of a mortgage you can reasonably afford. These formulas are called qualifying ratios because they estimate the amount of money you should spend on mortgage payments in relation to your income and other expenses.

It is important to remember that the following ratios may vary from lender to lender and each application is handled on an individual basis, so the guidelines are just that -- guidelines. There are many affordability programs, both government and conventional, that have more lenient requirements for low- and moderate-income families.

Many of these programs involve financial counseling for low- and moderate-income people interested in buying a home and in return, offer more lenient requirements.

Generally speaking, to qualify for conventional loans, housing expenses should not exceed 26% to 28% of your gross monthly income. For FHA loans, the ratio is 29% of gross monthly income. Monthly housing costs include the mortgage principal, interest, taxes and insurance, often abbreviated PITI. For example, if your annual income is $30,000, your gross monthly income is $2,500, times 28% = $700. So you would probably qualify for a conventional home loan that requires monthly payments of $700.

Any expenses that extend 11 months or more into the future are termed long-term debt, such as a car loan. Total monthly costs, including PITI and all other long-term debt, should equal no greater than 33% to 36% of your gross monthly income for conventional loans. Using the same example, $2,500 x 36% = $900. So the total of your monthly housing expenses plus any long-term debts each month cannot exceed $900. For FHA the ratio is 41%.

Maximum allowable monthly housing expense 26% - 28% of gross monthly income - Conventional 29% of gross monthly income - FHA

Maximum allowable monthly housing expense and long-term debt 33% - 36% of gross monthly income - Conventional 41% of gross monthly income - FHA

One way to determine how much to spend for housing is to compare your monthly income with monthly long-term obligations and expenses. Use the worksheet, "Evaluating Your Financial Resources," to determine how much money you can spend on housing. Be sure to only include income you can definitely count on.

When budgeting to buy a home, it is important to allow enough money for additional expenses such as maintenance and insurance costs. If you are purchasing an existing home, gather information such as utility cost averages and maintenance costs from previous owners or tenants to help you better prepare for homeownership.

Homeowner's insurance or property insurance is another cost you will have to consider. The lending institution holding the mortgage will require insurance in an amount sufficient to cover the loan. However, to protect the full value of your investment, you might want to consider purchasing insurance that provides the full replacement cost if the home is destroyed. Some insurance only provides a fixed dollar amount which may be insufficient to rebuild a badly damaged house.

What Kind Of Property Can You Buy With A Low Down Payment Loan?

There are few restrictions regarding the type of home you may buy with a low down payment loan. In addition, low down payment loans may be used with the wide variety of mortgages.

Besides price range, there are many other factors to consider when purchasing a home. It's in your best interest to take care in selecting a home that will have lasting value as well as provide shelter. Be sure the neighborhood and house meet the needs of your family. If you have children, you may want to know if there are other children in the neighborhood and what schools or playgrounds are nearby. Also consider the availability of public transportation and how far family members will have to commute to work or school.

Check on the condition of the plumbing, heating and electrical systems and whether they are up to code regulations. The best and easiest way to do this is through a certified home inspection, from a certified inspector.

If you are like most people, a home is the single largest purchase you will ever make. It is important that you select a home that will meet your family's needs and keep you happy for years to come. And most important, you must be able to afford to remain in that home for as long as you please.

Your Initial Meeting With a Lender

The loan approval process generally begins with an initial interview where the prospective home buyer and the lender meet to discuss the potential loan. You will need to bring information to verify your income and long-term debts.

Often people prefer to meet with the lender before house hunting to determine in advance what price range they can realistically afford and the mortgage amount for which they can qualify. This step is called pre-qualification and can save you much time and trouble by making certain you are looking in the correct price range.

For your first meeting with the lender, you should bring:

- A purchase contract for the house (if you have one)
- Your bank account numbers and the address of your bank branch, along with checking and savings account statements for the previous 2-3 months
- Pay stubs, W2 withholding forms, tax returns for two years, or other proof of employment and income verification

- Divorce settlement papers, if applicable
- Credit card bills for the past few billing periods, or canceled checks for rent or utility bill payments, to show payment history and amount of revolving debt
- Information on other consumer debt such as car loans, furniture loans, student loans and retail/credit cards
- Balance sheets and tax returns, if you are self- employed
- Any gift letters, if you are using a gift from a parent or relative or other organization to help pay the down payment and/or closing costs. This letter simply states that the money is in fact a gift and will not have to be repaid.

Having these items on hand when you visit the lender will help speed up the application process. Usually an application fee and the appraisal fee will have to be paid when you submit the mortgage application. This is only done after you have successfully negotiated on a home and have had your offer accepted by the seller. Generally, there is no fee for pre- qualification.

After the initial meeting with the lender, you should have a general idea if you qualify for the size and type of loan you want. The lender should let you know if you qualify for the loan in 30 to 60 days. If you are denied a home loan, the lender must explain the reasons. If this happens, the lender will usually discuss any options with you.

Two Key Factors in Qualifying for a Home Loan

In attempting to approve home buyers for the type and amount of mortgage they want, lenders basically look at two key factors: the borrower's ability and willingness to repay the loan. Ability to repay the mortgage is verified by your current employment and total income. Generally speaking, lenders prefer for you to have been employed at the same place for at least two years, or at least be in the same line of work for a few years.

The borrower's willingness to repay is determined by examining how the property will be used. For instance, will you be living there or just renting it out? Willingness is also closely related to how you have fulfilled previous financial commitments, thus the emphasis on the credit report or rent and utility bills.

It is important to remember that there are no rules carved in stone. Each applicant is handled on a case-by-case basis. So even if you come up a little short in one area, perhaps one of your stronger points will make up for the weak one. Everyone involved in real estate is in the business of selling homes, in one way or another. Therefore, if the loan makes sense, lenders and insurers will do their best to see that you qualify.

By its very nature, mortgage insurance is an aid to affordability, because it allows families to purchase homes with less cash on hand. The industry plays a central role in helping low- and moderate-income families become homeowners.

More and more borrowers are taking advantage of low down payment mortgages and becoming homeowners with as little as 5 percent down. For more information on how you can take advantage of the benefits of a low down payment home loan with mortgage insurance, contact your local lender or real estate agent. For general information on purchasing a home, contact the county extension office of the U.S. Department of Agriculture, listed in the government pages of your telephone book.

PAYMENT TABLE

MONTHLY PAYMENT FOR EACH $1,000 BORROWED

INTEREST RATE 15 YEARS 20 YEARS 30 YEARS

4.00% - $7.40 | $6.06 | $4.77

4.50% - $7.65 | $6.33 | $5.07

5.00% - $7.91 | $6.60 | $5.37

5.50% - $8.17 | $6.88 | $5.68

6.00% - $8.44 | $7.16 | $6.00

6.50% - $8.71 | $7.46 | $6.32

7.00% - $8.99 | $7.75 | $6.65

7.50% - $9.27 | $8.06 | $6.99

8.00% - $9.56 | $8.36 |$7.34

8.50% - $9.85 | $8.68 | $7.69

9.00% - $10.14 | $9.00 | $8.05

9.50% - $10.44 | $9.32 | $8.41

10.00% - $10.75 | $9.65 | $8.78

This table helps you calculate your monthly housing costs, not including taxes and insurance. For example, assume you have a 30- year mortgage and the interest rate is 8 percent. The chart shows that the monthly payment amount per $1,000 is $7.34. If you want to borrow $75,000, you can estimate the payment by multiplying 75 x $7.34, which equals $550.50 per month.

As you can see, the lower the interest rate, the easier it is to afford a home.

Guide to Buying A Manufactured Home

A home is probably the single most important purchase you will make in your lifetime. In recent years, nearly one-third of all new single-family homes bought have been manufactured homes. The Manufactured Housing Institute and the Federal Trade Commission's Office of Consumer and Business Education developed this booklet to guide you through this very critical purchasing decision.

If you are thinking about buying a manufactured home, this guide is for you. It will tell you about manufactured homes and how to go about choosing one that meets your needs and your pocketbook. You will learnhow a home is transported to a site, how the site must be prepared, and how the home is installed on the site. You also will learn about manufactured home warranty protection. By following the guide's suggestions, you should be able to avoid some possible pitfalls when buying a manufactured home.

The term "manufactured home" was adopted in 1980 by the the United States Congress to describe a type of house that is constructed in a factory to comply with a building code developed by the Department of Housing and Urban Development (HUD). In the past, manufactured homes were called "mobile homes," a term that many people still use. However,"mobile" is no longer an accurate name because fewer than five percent of such homes are ever moved off the owner's original site.

WARRANTIES & OTHER PROTECTIONS FOR THE HOME PURCHASER

Federal standards and written warranties protect buyers of manufactured homes. Every manufactured home now offered for sale has a small red and silver seal that certifies that the home has been inspected during construction and meets federal home construction and safety standards. These standards were developed to assure a suitable level of performance in every manufactured home constructed in the U.S. Such standards, together with the manufacturers' warranties, serve to protect you -- the home buyer.

FEDERAL CONSTRUCTION AND SAFETY STANDARDS

Since mid-1976, all manufactured homes have been constructed to meet the federal building standards adopted and administered by the U.S. Department of Housing and Urban Development. This national code is called the National Manufactured Home Construction and Safety Standards. The code regulates manufactured home design and construction, strength and durability, fire resistance, and energy efficiency. It also prescribes the performance standards for the heating, plumbing, air conditioning, thermal, and electrical systems.

The National Manufactured Housing Construction and Safety Standards Act also requires that you receive a home owner's manual when you buy your home. This manual will explain, among other things, what to do if something goes wrong with your home. Some of the important subjects covered in the home owner's manual include:

- general maintenance;
- safety (including a fire safety checklist); and
- state agencies involved in enforcing the federal manufactured home standards.

THE MANUFACTURER'S WARRANTY

Warranties vary among different manufacturers. Ask to see the warranties on the manufactured homes that interest you and compare them before you buy. All retailers are required to have copies of the manufacturers' warranties that are offered on the homes they sell, and they will make them available to you if you ask to see them. By reading the warranty before you buy your home, you can make sure the home you buy is covered by the kind of warranty protection you want.

When you buy your manufactured home, you will receive the manufacturer's written warranty from your retailer. The manufacturer's written warranty usually covers substantial defects in:

- workmanship in the structure;
- factory-installed plumbing, heating, and electrical systems; and
- factory-installed appliances (these also may be covered by appliance warranties).

It is important, however, to understand that the manufacturer's warranty will not provide coverage for problems resulting from:

- lack of proper installation or maintenance;
- accidents;
- owner's negligence; or
- unauthorized repairs.

Therefore, to make sure that your home's warranty will be honored, carefully follow the manufacturer's instructions for installing, maintaining, and repairing your home.

In many cases, the retailer will perform service under the manufacturer's warranty. However, it is the manufacturer who has the final responsibility. Be aware that if the retailer must order parts from the manufacturer to make a warranty repair, shipping and delivery of those parts may affect the amount of time it takes to get service.

Before you buy your manufactured home, ask to see the written warranties offered on the homes the retailer sells.

Manufacturers warranties cover many, but not all, types of potential problems.

The answers to the following questions should help you get the kind of warranty protection you want:

- What warranties come with the manufactured home? You may get warranties from the home manufacturer, the retailer, the transporter, the installer, and the appliance manufacturers.
- What exactly does each of these warranties cover? What do they not cover?
- Do the manufacturer's or retailer's written warranties on the home cover transportation and installation? If not, are installation and transportation covered by separate written warranties?

- How long do the warranties last?
- How do you get warranty service?
- Who will provide service under the warranties?
- Where will the warranty service be performed?

Consider these important questions about warranty coverage before you decide which home to buy.

Implied warranties are unspoken, unwritten promises created by state law.

Ask to see all warranties in writing. Make sure you understand who offers the warranty, who performs the service, and what is and is not covered before selecting and buying your manufactured home.

In addition to any written warranty offered by the manufacturer, you may have certain "implied warranties" when you buy a manufactured home. An implied warranty is an unspoken, unwritten promise that a product is fit to be sold and used for its intended purposes--for example, that a manufactured home is fit to be sold and lived in. These implied warranties protect you even if no written warranty is offered by the manufacturer or retailer. Most states allow sales that exclude implied warranties ("as is" sales). However, some states do not permit a seller to exclude or limit implied warranties. Contact your state or local consumer protection office to ask about implied warranty protections in your state. When buying a manufactured house, especially a used one, make sure you know whether it is being sold "as is" -- with no implied or written warranty.

THE RETAILER'S WARRANTY

A retailer may offer a written warranty on a home. Written warranties are not alike. But, typically, the retailer's warranty will tell you:

- the terms of the warranty;
- what you must do to keep the warranty in effect;
- what you can reasonably expect from the retailer; and
- that the home has been installed according to manufacturer specifications and local regulations.

The warranty also will guarantee that the home has a HUD inspection seal and that optional appliances and equipment have been properly installed. Remember, ask to see the retailer's warranty before buying to check on what it does and does not cover.

You should know that a retailer's warranty will not provide coverage for problems that arise from:

- owner's negligence;

- owner's failure to provide proper notice for service; and
- unauthorized repairs.

APPLIANCE WARRANTIES

The appliances in your home also will be covered by warranties. In many cases, these warranties, along with use and care manuals, are provided by the individual appliance manufacturers. In addition, some states require that the home manufacturer's warranty cover the appliances that come with your home.

Read the appliance warranties and note the duration and terms. In addition, check instructions in the warranty about how to get service. In most cases, the quickest service can be obtained from the appliance manufacturer's authorized service centers. Check the use and care information on the appliance warranties for a list of such service centers or service agents. However, if warranty service is not available from the appliance manufacturer or its servicer, contact your retailer for assistance. The home manufacturer's warranty, if any, may provide warranty service for your problem.

The retailer may offer a written warranty, but not everything will be covered.

PLACEMENT & SELECTION OF YOUR MANUFACTURED HOME

Manufactured homes offer a wide variety of styles and prices.

There is a manufactured home to fit almost every pocketbook. Some models are designed for those whose budget limits them to a lower-cost home. Other models have such higher-priced features as cathedral ceilings, formal dining rooms, and woodburning fireplaces. The home can be a single-section unit or a larger multi-section unit. Multi-section homes come from the factory in two or more parts that are joined at the site. A single-section home comes from the factory as one complete unit. With more than 150 companies building manufactured homes in more than 400 factories, and with manufactured home sales centers located throughout the United States, you have an opportunity to choose from a wide variety of home styles.

PLACING YOUR MANUFACTURED HOME

Before you select and buy your home, you should decide where it will be located. There are three basic options you can consider. First, you could plan to place your manufactured home on land you own or intend to buy. If you choose this option, you must consider zoning laws, restrictive covenants, and hookup regulations. Such restrictions may prevent you from placing a manufactured home on a particular piece of land. Second, you could plan to place your manufactured home on a leased homesite in a manufactured housing development, in which case the company managing the development will normally take care of these considerations. Third, you could decide to buy a home already on a homesite in a planned community. Then, of course, you would not be faced with the typical placement concerns.

PLACING YOUR HOME ON YOUR OWN LAND

If you own or plan to buy land for your manufactured home, there are several matters you should consider.

Zoning. In cities and suburban areas, and in some semirural areas, you may face zoning requirements that must be met. In certain areas, there may be a prohibition against manufactured homes, or certain requirements regarding their size and exterior appearance. You can find out if there are any restrictions or requirements by contacting the local community's planning and land use department. Consult your local telephone directory for the office nearest you.

Restrictive Covenants. Restrictive covenants are limitations in property deeds that control how you can use the land. These may include a requirement that homes be a certain size or a prohibition that lands not be used for certain purposes. The title search, conducted when you buy the land,may reveal information about such restrictions. Sometimes, however, the restrictions are described in ways that are difficult to understand. You may want to check with an experienced real estate attorney to see if there are any restrictive covenants that would keep you from placing your home on the land you are considering.

Utilities. Although a manufactured home comes complete with plumbing, electrical, and heating systems, it must, like all homes, be connected to electrical,. water, and sewerage facilities. If your site is in a well-developed area, all necessary utilities may be available, subject to connection charges. Find out exactly what utilities are available and how much it will cost to connect your home to all utility sources. Contact your local public utilities division for information about utility services in your area.

Make sure the the applicable zoning laws and the deed on your land will allow a manufactured home to be placed there.

There are a number of important questions to consider when placing your manufactured home in a rental community.

Electrical Facilities. Electricity is usually available in all areas. But if the area where you plan to live does not have ready access to electric power, connection could be quite expensive. Check with the local power company to find out whether electricity is readily accessible.

Water Facilities. In many locations, there may not be local government-supplied water lines. If there is no water, you may have to drill a well. Do not assume that all drilling will provide water. Check with a local well-drilling company about costs and whether success is guaranteed. Also, check with local health authorities to make certain there are no problems with the quality of the water in the area.

Sewerage Facilities. Many areas still rely on septic tank systems instead of a city or county sanitary sewerage system. If you cannot connect your home to a sewerage system, you must check with local authorities about installing a septic tank. Properly installed septic systems can work quite well. But sometimes they cannot be used; for example, where the soft is not able to absorb the discharged waste. For more information, contact the local health department or the office responsible for granting building permits.

PLACING YOUR HOME IN A RENTAL COMMUNITY

You may want to place your home on a leased site in a community especially planned for manufactured housing. Placing your home in such a community usually involves fewer practical problems.

If you are interested in a rental community, visit the ones in the area where you wish to live. In addition, some manufactured home retailers may operate their own rental communities, so you may wish to ask the retailer for information and advice about them. Find out what each community offers and the differences among them, including the financial aspects, such as rental and installation costs and any miscellaneous service charges.

There also are several questions you will want to ask before deciding upon a particular rental community.

- Is a written lease required and, if so, for how long?
- What are the charges for utility connections or other services?
- Do the community's rules require that it be responsible for installing your home, or can you let your retailer do the job?
- What charges will be made for installation? Who will be responsible for ground maintenance, snow removal, refuse collection, street maintenance, and mail?
- What are the community's rules and regulations? For example, are pets prohibited? Can you accept and live with such rules?
- Are there any special requirements or restrictions when you sell your home?
- Are there any provisions to protect you if the owner of the manufactured home community where you lease your homesite sells the property for another purpose? If you must move because of a sale, will the owner help with relocation expenses, or is private or public assistance available?

Buying a home in a planned community is another option to consider.

BUYING A MANUFACTURED HOME IN A PLANNED COMMUNITY

You may want to consider another alternative and buy a home that already is located in a planned community. As with a rental community, there are fewer practical problems involved because you do not have to concern yourself about placement.

But be sure to check into the costs, services, and rules of any planned community before you buy. You should consider the matters mentioned earlier, such as who is responsible for utility connections, if there will be any restrictions on resale of your home, and whether you can live with that community's rules.

Check the community's rules to see if you can live with them.

CHOOSING A MANUFACTURED HOME

There are several matters you may want to consider when choosing a home.

How do I want my home to look? You may select from a variety of exterior designs, depending upon your taste and your budget. External siding options come in a variety of colors and materials including metal, vinyl, wood, or hardboard. You also may select such outside design features as a bay window, a gable front, or a pitched roof with shingles. Awnings, enclosures around the crawl space, patio covers, decks, and steps also are available.

What size home and floor plan do I want or need? Manufactured homes are available in a variety of floor plans that include spacious living rooms, dining rooms, fully equipped kitchens, one or more bedrooms, family rooms, and utility rooms. Depending upon your needs and the size of your lot, you can choose a single-section home plan or a larger multi-section design. Homes range in size from 400 to 2500 square feet.

Check state laws; they may limit the movement of your home after installation.

Can I move my home to another location or even another state? If there is a chance that you might relocate your home to another state, find out about state laws covering transportation of manufactured homes. Some states, particularly eastern states, have certain regulations, such as weight, size, or width limitations, that may prevent you from moving your home. Before you purchase, check with the appropriate authorities in the states through which you may want to transport your home.

Of course, if you do move your home you will be faced with extra expenses. Besides transporting costs, which include licensing fees to take your home through a state, you again will have the cost of foundation construction, installation, and utility hookups.

What interior options and features are available? Manufactured homes have many options and features for a variety of floor plans. You also can choose color and quality options for carpets and wall coverings; and you can choose other features such as custom cabinets, window designs, and wood-burning fireplaces. Some home models and manufacturers offer more custom options than others. Ask your retailer what options are offered on homes he sells.

What appliance packages are available? Most manufactured homes are sold with a refrigerator and range. But some appliance packages may include microwave oven, trash compactor, garbage disposal, washer/dryer, and built-in indoor grill. Central air conditioning also is an option.

Be sure your energy package is designed for the climate zone where your home is located.

What energy-efficiency options are available? The National Manufactured Home Construction and Safety Standards require separate energy efficiency levels for the three different temperature zones of the United States. However, you may wish to increase your home's energy efficiency. There are a variety of optional energy packages available, such as increased insulation, double- and triple-glazed windows, sheathing products, self-storing storm windows, and "high-efficiency" water heaters, furnaces, refrigerators, and air conditioners. Ask your retailer about available energy-saving features and their costs. You especially should note the "heating certificate," which specifies the temperature zone for which the home is designed, and the "comfort cooling certificate," which specifies the appropriate central air conditioning system for the home. Both certificates are located on the inside of the home. You should not place your home in a climate zone for which it was not designed.

What written warranty coverage is offered on the home, its transportation, and its installation on the homesite? Nearly all manufacturers offer a written warranty on the home itself. There are, however, important differences among warranties. For example, manufacturers' warranties may exclude coverage of installation and transportation (although reliable retailers or contractors usually offer written warranties on these services). Although you may never need such warranty services, it is a good idea to check the coverage of any warranties that are offered before you buy.

BUYING A MANUFACTURED HOME

Most likely you will buy your home from a retail sales center, although today, in some states, you also could buy your manufactured home from a real estate agent if the home is already located in a community. Some retail sales centers are owned and operated by a home manufacturing company, but most retail businesses are independently owned and operated. They sell homes built by several manufacturers.

You should. use as much care in choosing your retailer as you do in choosing your home and its features. This is because the retailer will help you choose your home and, if you wish, custom order it from the factory. In addition, the retailer usually will be the one responsible for having your home delivered and installed. The retailer also may arrange for financing and insurance for your home. Finally, after you move into your home, your retailer often will be the person you contact for warranty service.

One of the best ways to find a reputable retailer is to talk with friends who live in manufactured homes and get their recommendations. You also might ask them to recommend a home manufacturer. You may wish to contact your local Better Business Bureau to find out if a particular retailer or manufacturer has a record of unsettled or unresolved complaints on file. You also may wish to contact your state manufactured home association and request the names and addresses of manufacturers or retailers in your area.

Compare warranties offered by various manufacturers and retailers.

SITE PREPARATION, TRANSPORTATION & HOME INSTALLATION

Proper site preparation and installation are necessary for comfort, durability, and correct functioning of your home.

Make sure the transporting company warrants its services in writing.

Before your home is installed, you must ensure that the site has been prepared properly. If you are placing your home on your own land, your retailer can provide advice on how to prepare the site.

If you will be living in a rental community, the community manager will probably take care of site preparation. Before signing your lease, ask about this and any other costs.

SITE PREPARATION

If you are having your home installed on your own land, you are responsible for site preparation. However, it is a good idea to ask your retailer (or whoever is going to install your home and warrant the installation) to inspect the site prior to installation to make sure that everything has been prepared properly.

Here are some guidelines that must be followed in preparing the site.

- The site must be accessible by the truck transporting your home.
- The site must be as level as possible.
- The precise site area must be cleared of trees, rocks, and any other surface debris.
- The soil must be graded and sloped for water runoff.
- The soil must be compacted so that the foundation will not sink or shift on loose earth fill.

Although you may be able to do some work yourself, such as removing trees and shrubs, most site-preparation tasks, such as grading and compacting the soil, require technical expertise. You will need to contract for expert assistance to ensure that your home is installed on firm land that adequately drains.

TRANSPORTING YOUR HOME

In most instances, your home will be transported first from the factory to the retail sales center. At the center, your retailer will use a checklist to make sure your home arrived undamaged, and if any problem occurred while your home was being transported from the factory, it will be repaired before delivery to your homesite.

If any damage occurs while the home is being transported to your site, the company transporting your home is usually responsible. Therefore, you should check for damage as soon as your home is delivered. If you find any damage, contact the transporting company immediately.

If you allow your home to be transported by a company that does not provide a written transportation warranty, it may be difficult to obtain free repairs, if any are necessary. Therefore, before you purchase your home, make certain that the transporting of your new home is protected by a written warranty.

INSTALLING YOUR HOME

After you have chosen the retailer and your home, have complied with local building and zoning requirements, have obtained state inspections when necessary, have properly prepared the site, and have gotten good warranty protection on the home and its transportation and installation, you are ready to have your home installed on a homesite. This also requires. careful attention.

Every manufacturer is required by the federal standards to provide instructions for installing your home. However, the actual installation typically is not within the manufacturer's control. Therefore, the installation of your manufactured home is not covered by the manufacturer's warranty.

These cautions are not designed to worry you, but rather to alert you to the importance of installation. Hundreds of thousands of manufactured homes are installed on sites each year without major problems. You should not have problems if your home is installed by a reliable retailer or by a company that specializes in manufactured home installation.

Check for damage as soon as you receive your home and report any problems to the retailer or transporter as soon as possible.

The manufacturer's written warranty on the home usually will not cover problems that are caused by improper installation.

Usually, the retailer will install your home or contract with a professional installation crew to do the work. In most cases, the price of your home will include the cost of installation by such qualified professionals. Be sure to check this with your retailer before you sign the sales contract. If installation is not included in the price, you may have to contract with a separate company to install your home. Ask your retailer for the names of such companies.

Clarify in writing what installation services are provided, who is providing them, and who warrants the work.

The retailer should spell out in writing the full scope of installation services that are included in the price of your home. This should assure you that everything is covered and that there will be no misunderstandings about who is responsible for what.

Regardless of whether the retailer or a separate company installs your home, you should follow several guidelines.

- Discuss with the contractor the steps involved in installation so you understand them.
- Have the contractor write these steps into the contract.
- Ask if there is a written warranty covering your home's installation. If not, then ask to have it put in writing.

By following these guidelines, you will know exactly what you are paying for, how to check your home to see that the work has been done properly and, equally important, what kind of warranty protection covers eachstep.

Installing your home involves six steps. The price of your home usually includes all of these steps. Therefore, ask to see an itemized list in writing before signing the contract to purchase your home.

1. Transporting Your Home From the Retailer's Sales Center to Your Homesite.

As noted earlier, the manufacturer normally is responsible for transporting the home from the factory to the retailer, and the retailer is usually responsible for getting the home to your land. However, if the roads are not adequate or there are obstacles that will make it difficult to get the home to your site, your retailer may be unable to accept responsibility for delivering your home. Be sure to check the route to your homesite for such things as low-hanging tree limbs and loose rocks.

2. Constructing a Foundation for Home Placement.

In addition to following the manufacturer's instructions and complying with local law, find out if the institution financing your home (or the rental community in which you place your home) has foundation requirements. The Federal Housing Administration (FHA) and Veterans Administration (VA) also have special foundation requirements. Remind your retailer about the kind of financing you are using so that all applicable foundation requirements will be met.

If you place your home on your own property, you have the option of choosing from a number of different foundation types. Several types of foundations are available, from concrete slabs to full basements. Remember, local codes reflecting the different climates and soil conditions must be followed. A professional installer will know which foundation codes are required by local law or what is required by your financing institution.

3. Leveling Your Home.

It is essential that an experienced crew installs your home to assure that it is leveled correctly. Leveling is one of the most important steps in setting up your home. It must be done according to the manufacturer's specifications. If your home is not level on its foundation, the weight of the home will not be distributed evenly. Poor leveling could result in such problems as doors that do not open and close easily or floors or walls that buckle.

If any of these problems do occur because your home was not properly leveled, the manufacturer's warranty will not cover the repairs. Remember, the manufacturer's warranty only covers problems resulting from faulty construction.

Insist on walking through the home before the installation crew leaves to check for signs that your home may not be level.

Leveling is critical and must be performed by a professional crew.

Walk through your home before the installation crew leaves to assure that the home is level.

After installation has been completed and you have checked out the installed home, it is very important to periodically recheck the leveling of your home. This is important because, over time, such things as foundation supports may settle unevenly and create an un-level condition. Such conditions can, in extreme cases, cause serious damage to the walls and floors. Normally, you should recheck leveling about 60 to 90 days following installation and, perhaps, once a year after that.

Anchoring your home to the ground should be done by experts.

4. Securing Your Home to the Foundation.

It is not sufficient merely to place your home on a properly constructed foundation. There are certain minimum requirements that should be met. To ensure that your home does not shift and become damaged, it must be anchored to the ground according to the manufacturer's instructions or as required by local codes. Anchoring should prevent severe winds from damaging your home.

Although your home will come with instructions for properly securing it to its foundation, anchoring is not a do-it-yourself project. Talk with your retailer about anchoring, and be sure that your home's installation includes this very necessary step.

5. Finishing Your Home.

Once your home is secured to the foundation, finishing work may be needed, such as an enclosure around the crawl space or landscaping. If your home is a multi-section, finishing may include applying molding and joining carpet on the interior or completing work on the exterior siding.

6. Connecting Your Home to Utilities.

Installation services should include connecting your home to the necessary water, electrical, gas, and sewerage lines. If this is not included in your installation price, you will have to contract for these services yourself. Your retailer can tell you how to make arrangements for utility connections. Alternatively, you can obtain the information from the local government agency that oversees building permits.

This chapter outlined the process of site preparation, transportation, and installation. The installation guide that comes with your home provides more detailed information. The important point to remember, however, is that although this guide is informative and detailed, it is not designed to enable you to install your home yourself. Leave installation to the professionals.

INSPECTION OF YOUR NEW MANUFACTURED HOME

When you take possession of your new home, the first thing to do is to check it over thoroughly. It is important to discover problems early and report them to the retailer or the installer within the warranty's time limits.

INSTALLATION INSPECTION

First, check to see that your home was installed properly. If you are present during installation, ask the installation crew manager to walk through your home with you to assist in identifying problems and to answer your questions.

Listed below are some areas you should check to make sure your home was installed properly.

Open and close all interior and exterior doors. If a door does not open and close smoothly, it may indicate a need for a minor hinge adjustment, but it also may be a sign that the home is not level. Immediately call this to the attention of the person responsible for installation.

Examine the entire house. Look at the walls, the floors, and the ceilings. Be certain that all faucets and appliances work.

GENERAL INSPECTION

You will want to make your inspection of the home in an organized way. A good strategy is to inspect the outside of your home first and then check the interior, carefully going through each room. Many manufacturers provide a checklist in the owner's manual of items you should inspect. You should fill out the checklist and return it to the manufacturer as soon as possible.

As you make your inspection, jot down on paper every item you think requires service. When you are finished, make copies of the list -- one for you, one for your retailer, and an extra copy for the manufacturer.

It is also a good idea to put the date of your inspection on the list.

Carefully inspect your home for any problems as soon as it is installed; make sure that it is level-check doors, windows, and drawers.

YOUR MANUFACTURED HOME SUMMARY

This checklist can help you remember all the points to consider in choosing, buying, and installing your home.

Read and compare all warranties offered on the homes that interest you before deciding to buy.

The following is a summary of "How to Buy a Manufactured Home." It provides you with some questions to ask the retailer or yourself before making your purchase. You can find more information about the questions below by referring to the listed page numbers.

WARRANTY PROTECTION

- What warranties are offered by the home manufacturer, the retailer, the transporter, the installer, and the appliance manufacturers?
- Are the warranties in writing?
- Do you know what is and is not covered by the warranties?
- Who performs the service under the warranties?

PLACING YOUR HOME

- If you intend to place your home on your own land, are there zoning regulations or restrictive covenants that prohibit the location of a manufactured home?
- Are electric, gas, water, and sewerage lines available on your homesite, or will you have to make other arrangements to provide necessary utilities?
- If you locate your home in a rental community, who will be responsible for ground maintenance, snow removal, and other such services?

CHOOSING YOUR HOME

- How do you want your home to look?
- What size home and floor plan do you want or need?

- Will state laws on transporting oversize loads prevent you from moving your home?
- What custom options and features are available?
- What appliance packages are available?
- What energy-efficiency options are available?

INSTALLING YOUR HOME

- Will someone inspect your site prior to installation to see that everything has been prepared properly?
- Is your site accessible by the trucks transporting your home?
- Who will transport your home to the homesite?
- Does the transporting company provide a written warranty for any damage that occurs during transporting?
- What foundation options are available and required?
- Will there be an experienced installation crew to ensure that your home is properly leveled and secured to the foundation?
- Will your home need any finishing touches, such as landscaping?
- Who is responsible for securing utility connections?

Remember that installation is the key to durability and proper functioning of your home.

INSPECTING YOUR HOME

- Have you thoroughly checked over your home, both inside and out?
- Do all the doors, windows, and drawers close properly?
- Do all appliances and faucets work?
- Did you make a list of all problems when you moved in, and did you report them to your retailer and manufacturer?

Shopping For A Mortgage

Obtain Information from Several Lenders

Home loans are available from several types of lenders--thrift institutions, commercial banks, mortgage companies, and credit unions. Different lenders may quote you different prices, so you should contact several lenders to make sure you're getting the best price. You can also get a home loan through a mortgage broker. Brokers arrange transactions rather than lending money directly; in other words, they find a lender for you. A broker's access to several lenders can mean a wider selection of loan products and terms from which you can choose. Brokers will generally contact several lenders regarding your application, but they are not obligated to find the best deal for you unless they have contracted with you to act as your agent. Consequently, you should consider contacting more than one broker, just as you should with banks or thrift institutions.

Whether you are dealing with a lender or a broker may not always be clear. Some financial institutions operate as both lenders and brokers. And most brokers' advertisements do not use the word "broker." Therefore, be sure to ask whether a broker is involved. This information is important because brokers are usually paid a fee for their services that may be separate from and in addition to the lender's origination or other fees. A broker's compensation may be in the form of "points" paid at closing or as an add-onto your interest rate, or both. You should ask each broker you work with how he or she will be compensated so that you can compare the different fees. Be prepared to negotiate with the brokers as well as the lenders.

Obtain All Important Cost Information

Be sure to get information about mortgages from several lenders or brokers. Know how much of a down payment you can afford, and find out all the costs involved in the loan. Knowing just the amount of the monthly payment or the interest rate is not enough. Ask for information about the same loan amount, loan term, and type of loan so that you can compare the information. The following information is important to get from each lender and broker:

Rates

Ask each lender and broker for a list of its current mortgage interest rates and whether the rates being quoted are the lowest for that day or week.

Ask whether the rate is fixed or adjustable. Keep in mind that when interest rates for adjustable-rate loans go up, generally so does the monthly payment.

If the rate quoted is for an adjustable-rate loan, ask how your rate and loan payment will vary, including whether your loan payment will be reduced when rates go down.

Ask about the loan's annual percentage rate (APR). The APR takes into account not only the interest rate but also points, broker fees, and certain other credit charges that you may be required to pay, expressed as a yearly rate.

Points

Points are fees paid to the lender or broker for the loan and are often linked to the interest rate; usually the more points you pay, the lower the rate.

Check your local newspaper for information about rates and points currently being offered.

Ask for points to be quoted to you as a dollar amount--rather than just as the number of points--so that you will actually know how much you will have to pay.

Fees

A home loan often involves many fees, such as loan origination or underwriting fees, broker fees, and transaction, settlement, and closing costs. Every lender or broker should be able to give you an estimate of its fees. Many of these fees are negotiable. Some fees are paid when you apply for a loan (such as application and appraisal fees), and others are paid at closing. In some cases, you can borrow the money needed to pay these fees, but doing so will increase your loan amount and total costs. "No cost" loans are sometimes available, but they usually involve higher rates.

Ask what each fee includes. Several items may be lumped into one fee.

Ask for an explanation of any fee you do not understand.

Down Payments and Private Mortgage Insurance

Some lenders require 20 percent of the home's purchase price as a down payment. However, many lenders now offer loans that require less than 20 percent down-- sometimes as little as 5 percent on conventional loans. If a 20 percent down payment is not made, lenders usually require the home buyer to purchase private mortgage insurance (PMI) to protect the lender in case the home buyer fails to pay. When government-assisted programs such as FHA (Federal Housing Administration), VA (Veterans Administration), or Rural Development Services are available, the down payment requirements may be substantially smaller.

Ask about the lender's requirements for a down payment, including what you need to do to verify that funds for your down payment are available.

Ask your lender about special programs it may offer.

If PMI is required for your loan,

Ask what the total cost of the insurance will be.

Ask how much your monthly payment will be when including the PMI premium.

Ask how long you will be required to carry PMI.

Obtain the Best Deal That You Can

Once you know what each lender has to offer, negotiate for the best deal that you can. On any given day, lenders and brokers may offer different prices for the same loan terms to different consumers, even if those consumers have the same loan qualifications. The most likely reason for this difference in price is that loan officers and brokers are often allowed to keep some or all of this difference as extra compensation. Generally, the difference between the lowest available price for a loan product and any higher price that the borrower agrees to pay is an overage. When overages occur, they are built into the prices quoted to consumers. They can occur in both fixed and variable-rate loans and can be in the form of points, fees, or the interest rate. Whether quoted to you by a loan officer or a broker, the price of any loan may contain overages.

Have the lender or broker write down all the costs associated with the loan. Then ask if the lender or broker will waive or reduce one or more of its fees or agree to a lower rate or fewer points. You'll want to make sure that the lender or broker is not agreeing to lower one fee while raising another or to lower the rate while raising points. There's no harm in asking lenders or brokers if they can give better terms than the original ones they quoted or than those you have found elsewhere.

Once you are satisfied with the terms you have negotiated, you may want to obtain a written lock-in from the lender or broker. The lock-in should include the rate that you have agreed upon, the period the lock-in lasts, and the number of points to be paid. A fee may be charged for locking in the loan rate.

This fee may be refundable at closing. Lock-ins can protect you from rate increases while your loan is being processed; if rates fall, however, you could end up with a less favorable rate. Should that happen, try to negotiatea compromise with the lender or broker.

Remember: Shop, Compare, Negotiate

When buying a home, remember to shop around, to compare costs and terms, and to negotiate for the best deal. Your local newspaper and the Internet are good places to start shopping for a loan. You can usually find information both on interest rates and on points for several lenders. Since rates and points can change daily, you'll want to check your newspaper often when shopping for a home loan. But the newspaper does not list the fees, so be sure to ask the lenders about them.

The Mortgage Shopping Worksheet that follows may also help you. Take it with you when you speak to each lender or broker and write down the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you are shopping for the best deal.

Fair Lending Is Required by Law

The Equal Credit Opportunity Act prohibits lenders from discriminating against credit applicants in any aspect of a credit transaction on the basis of race, color, religion, national origin, sex, marital status, age, whether all or part of the applicant's income comes from a public assistance program, or whether the applicant has in good faith exercised a right under the Consumer Credit Protection Act.

The Fair Housing Act prohibits discrimination in residential real estate transactions on the basis of race, color, religion, sex, handicap, familial status, or national origin.

Under these laws, a consumer cannot be refused a loan based on these characteristics nor be charged more for a loan or offered less favorable terms based on such characteristics.

Credit Problems? Still Shop, Compare, and Negotiate

Don't assume that minor credit problems or difficulties stemming from unique circumstances, such as illness or temporary loss of income, will limit your loan choices to only high-cost lenders. If your credit report contains negative information that is accurate, but there are good reasons for trusting you to repay a loan, be sure to explain your situation to the lender or broker. If your credit problems cannot be explained, you will probably have to pay more than borrowers who have good credit histories. But don’t assume that the only way to get credit is to pay a high price. Ask how your past credit history affects the price of your loan and what you would need to do to get a better price. Take the time to shop around and negotiate the best deal that you can.

Whether you have credit problems or not, it’s a good idea to review your credit report for accuracy and completeness before you apply for a loan. To order a copy of your credit report, contact:

Equifax: (800) 685-1111

TransUnion: (800) 916-8800

Experian: (800) 682-7654

Guide to Refinancing YourMortgage

This booklet was prepared in consultation with the following organizations:

- American Bankers Association
- Appraisal Institute
- Comptroller of the Currency
- Consumer Federation of America
- Credit Union National Association, Inc.
- Federal Deposit Insurance Corporation
- Federal Home Loan Mortgage Corporation
- Federal National Mortgage Association
- Federal Reserve Board's Consumer Advisory Council
- Federal Trade Commission
- Independent Bankers Association of America
- Mortgage Bankers Association of America
- Mortgage Insurance Companies of America
- National Association of Federal Credit Unions
- National Association of Home Builders

- National Association of Realtors
- National Credit Union Administration
- Office of Special Adviser to the President for Consumer Affairs
- Savings and Community Bankers of America
- The Consumer Bankers Association
- U.S. Department of Housing and Urban Development
- Veterans Administration

If you are considering refinancing your home loan, this section will provide useful basic information about refinancing. It cannot provide all the answers you will need, but we believe it is a good starting point.

If you are a homeowner who was lucky enough to buy when mortgage rates were low, you may have no interest in refinancing your present loan. But perhaps you bought your home when rates were higher. Or perhaps you have an adjustable-rate loan and would like to obtain different terms.

Should you refinance? This brochure will answer some questions that may help you decide. If you do refinance, the process will remind you of what you went through in obtaining the original mortgage. That's because, in reality, refinancing a mortgage is simply taking out a new mortgage. You will encounter many of the same procedures-and the same types of costs-the second time around.

Would Refinancing Be Worth It?

Refinancing can be worthwhile, but it does not make good financial sense for everyone. A general role of thumb is that refinancing becomes worth your while if the current interest rate on your mortgage is at least 2 percentage points higher than the prevailing market rate. This figure is generally accepted as the safe margin when balancing the costs of refinancing a mortgage against the savings.

There are other considerations, too, such as how long you plan to stay in the house. Most sources say that it takes at least three years to realize fully the savings from a lower interest rate, given the costs of the refinancing.(Depending on your loan amount and the particular circumstances, however, you might choose to refinance a loan that is only 1.5 percentage points higher than the current rate. You may even find you could recoup the refinancing costs in a shorter time.)

Refinancing can be a good idea for homeowners who:

* want to get out of a high interest rate loan to take advantage of lower rates. This is a good idea only if they intend to stay in the house long enough to make the additional fees worthwhile.

* have an adjustable-rate mortgage (ARM) and want a fixed-rate loan to have the certainty of knowing exactly what the mortgage payment will be for the life of the loan.

* want to convert to an ARM with a lower interest rate or more protective features (such as a better rate and payment caps) than the ARM they currently have.

* want to build up equity more quickly by converting to a loan with a shorter term.

* want to draw on the equity built up in their house to get cash for a major purchase or for their children's education.

If you decide that refinancing is not worth the costs, ask your lender whether you may be able to obtain all or some of the new terms you want by agreeing to a modification of your existing loan instead of a refinancing.

Should You Refinance Your ARM?

In deciding whether to refinance an ARM you should consider these questions:

* Is the next interest rate adjustment on your existing loan likely to increase your monthly payments substantially? Will the new interest rate be two or three percentage points higher than the prevailing rates being offered for either fixed-rate loans or other ARMs?

* If the current mortgage sets a cap on your monthly payments, are those payments large enough to pay off your loan by the end of the original term? Will refinancing to a new ARM or a fixed-rate loan enable you to pay your loan in full by the end of the term?

What Are the Costs of Refinancing?

The fees described below are the charges that you are most likely to encounter in a refinancing.

* Application Fee. This charge imposed by your lender covers the initial costs of processing your loan request and checking your credit report.

* Title Search and Title Insurance. This charge will cover the cost of examining the public record to confirm ownership of the real estate. It also covers the cost of a policy, usually issued by a title insurance company, that insures the policy holder in a specific amount for any loss caused by discrepancies in the title to the property.

Be sure to ask the company carrying the present policy if it can re-issue your policy at a re-issue rate. You could save up to 70 percent of what it would cost you for a new policy.

Because costs may vary significantly from area to area and from lender to lender, the following are estimates only. Your actual closing costs may be higher or lower than the ranges indicated below.

Application Fee $75 to $300

Appraisal Fee $150 to $400

Survey Costs $125 to $300

Homeowner's Hazard Insurance $300 to $600

Lender's Attorney's

Review Fees $75 to $200

Title Search and Title Insurance $450 to $600

Home Inspection Fees $175 to $350

Loan Origination Fees 1% of loan

Mortgage Insurance 0.5% to 1.0%

Points 1% to 3%

* Lender's Attorney's Review Fees. The lender will usually charge you for fees paid to the lawyer or company that conducts the closing for the lender. Settlements are conducted by lending institutions, title insurance companies, escrow companies, real estate brokers, and attorneys for the buyer and seller. In most situations, the person conducting the settlement is providing a service to the lender. You may also be required to pay for other legal services relating to your loan which are provided to the lender. You may want to retain your own attorney to represent you at all stages of the transaction including settlement.

* Loan Origination Fees and Points. The origination fee is charged for the lenders work in evaluating and preparing your mortgage loan. Points are prepaid finance charges imposed by the lender at closing to increase the lender's yield beyond the stated interest rate on the mortgage note. One point equals one percent of the loan amount. For example, one point on a $75,000 loan would be $750. In some cases, the points you pay can be financed by adding them to the loan amount. The total number of points a lender charges will depend on market conditions and the interest rate to be charged.

* Appraisal Fee. This fee pays for an appraisal which is a supportable and defensible estimate or opinion of the value of the property.

* Prepayment Penalty. A prepayment penalty on your present mortgage could be the greatest deterrent to refinancing. The practice of charging money for an early pay-off of the existing mortgage loan varies by state, type of lender, and type of loan. Prepayment penalties are forbidden on various loans including loans from federally chartered credit unions, FHA and VA loans, and some other home-purchase loans. The mortgage documents for your existing loan will state if there is a penalty for prepayment. In some loans, you may be charged interest for the full month in which you prepay your loan.

* Miscellaneous. Depending on the type of loan you have and other factors, another major expense you might face is the fee for a VA loan guarantee, FHA mortgage insurance, or private mortgage insurance. There are a few other closing costs in addition to these.

In conclusion, a homeowner should plan on paying an average of 3 to 6 percent of the outstanding principal in refinancing costs, plus any prepayment penalties and the costs of paying off any second mortgages that may exist.

One way of saving on some of these costs is to check first with the lender who holds your current mortgage. The lender may be willing to waive some of them, especially if the work relating to the mortgage closing is still current. This could include the fees for the title search, surveys, inspections, and so on.

The information contained in this section is intended to help you ask the right questions when considering a possible refinancing of your loan. It is not a replacement for professional advice. Talk with mortgage lenders, real estate agents, attorneys, and other advisors about lending practices, mortgage instruments, and your own interests before you commit to any specificloan.

Department of Housing and Urban Development

Rehab a Home with HUD's 203(k)

The Federal Housing Administration (FHA), which is part of the Department of Housing and Urban Development (HUD), administers various single family mortgage insurance programs. These programs operate through FHA approved lending institutions which submit applications to have the property appraised and have the buyer's credit approved. These lenders fund the mortgage loans which the Department insures. HUD does not make direct loans to help people buy homes.

The Section 203(k) program is the Department's primary program for the rehabilitation and repair of single family properties. As such, it is an important tool for community and neighborhood revitalization and for expanding homeownership opportunities. Since these are the primary goals of HUD, the Department believes that Section 203(k) is an important program and we intend to continue to strongly support the program and the lenders that participate in it.

Many lenders have successfully used the Section 203(k) program in partnership with state and local housing agencies and nonprofit organizations to rehabilitate properties. These lenders, along with state and local government agencies, have found ways to combine Section 203(k) with other financial resources, such as HUD's HOME, HOPE, and Community Development Block Grant Programs, to assist borrowers. Several state housing finance agencies have designed programs, specifically for use with Section 203(k) and some lenders have also used the expertise of local housing agencies and nonprofit organizations to help manage the rehabilitation processing.

The Department also believes that the Section 203(k) program is an excellent means for lenders to demonstrate their commitment to lending in lower income communities and to help meet their responsibilities under the Community Reinvestment Act (CRA). HUD is committed to increasing homeownership opportunities for families in these communities and Section 203(k) is an excellent product for use with CRA-type lending programs.

If you have questions about the 203(k) program or are interested in getting a 203(k) insured mortgage loan, we suggest that you get in touch with an FHA-approved lender in your area or the Director of Single Family Programs in your area.

Introduction

Section 101 (c) (1) of the Housing and Community Development Amendments of 1978 (Public Law 95557) amends Section 203(k) of the National Housing Act (NHA). The objective of the revision is to enable HUD to promote and facilitate the restoration and preservation of the Nation's existing housing stock. The provisions of Section 203(k) are located in Chapter II of Title 24 of the Code of Federal Regulations under Section 203.50 and Sections 203.440 through 203.494.

Program instructions are in HUD Handbook 4240.4. HUD Handbooks may be ordered online from The HUD Compendium or from HUDclips .

203(k) - How It Is Different

Most mortgage financing plans provide only permanent financing. That is, the lender will not usually close the loan and release the mortgage proceeds unless the condition and value of the property provide adequate loan security. When rehabilitation is involved, this means that a lender typically requires the improvements to be finished before a long-term mortgage is made.

When a homebuyer wants to purchase a house in need of repair or modernization, the homebuyer usually has to obtain financing first to purchase the dwelling; additional financing to do the rehabilitation construction; and a permanent mortgage when the work is completed to pay off the interim loans with a permanent mortgage. Often the interim financing (the acquisition and construction loans) involves relatively high interest rates and relatively short amortization periods.

The Section 203(k) program was designed to address this situation. The borrower can get just one mortgage loan, at a long-term fixed (or adjustable) rate, to finance both the acquisition and the rehabilitation of the property. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work.

To minimize the risk to the mortgage lender, the mortgage loan (the maximum allowable amount) is eligible for endorsement by HUD as soon as the mortgage proceeds are disbursed and a rehabilitation escrow account is established. At this point the lender has a fully-insured mortgage loan.

Eligible Property

To be eligible, the property must be a one- to four-family dwelling that has been completed for at least one year. The number of units on the site must be acceptable according to the provisions of local zoning requirements. All newly constructed units must be attached to the existing dwelling. Cooperative units are not eligible.

Homes that have been demolished, or will be razed as part of the rehabilitation work, are eligible provided some of the existing foundation system remains in place.

In addition to typical home rehabilitation projects, this program can be used to convert a one family dwelling to a two, three, or four-family dwelling. An existing multi-unit dwelling could be decreased to a one- to four-family unit.

An existing house (or modular unit) on another site can be moved onto the mortgaged property; however, release of loan proceeds for the existing structure on the non-mortgaged property is not allowed until the new foundation has been properly inspected and the dwelling has been properly placed and secured to the new foundation.

A 203(k) mortgage may be originated on a "mixed use" residential property provided: (1) The property has no greater than 25 percent (for a one story building); 33 percent (for a three story building); and 49 percent (for a two story building) of its floor area used for commercial (storefront) purposes; (2) the commercial use will not affect the health and safety of the occupants of the residential property; and (3) the rehabilitation funds will only be used for the residential functions of the dwelling and areas used to access the residential part of the property.

Condominium Unit

The Department also permits Section 203(k) mortgages to be used for individual units in condominium projects that have been approved by FHA, the Department of Veterans Affairs, or are acceptable to FNMA under the guidelines listed below:

The 203(k) program was not intended to be a project mortgage insurance program, as large scale development has considerably more risk than individual single family mortgage insurance. Therefore, condominium rehabilitation is subject to the following conditions:

1. Owner/occupant and qualified non-profit borrowers only; no investors;

2. Rehabilitation is limited only to the interior of the unit. Mortgage proceeds are not to be used for the rehabilitation of exteriors or other areas which are the responsibility of the condominium association, except for the installation of firewalls in the attic for the unit;

3. Only the lesser of five units per condominium association, or 25 percent of the total number of units, can be undergoing rehabilitation at any one time;

4. The maximum mortgage amount cannot exceed 100 percent of after-improved value.

After rehabilitation is complete, the individual buildings within the condominium must not contain more than four units. By law, Section 203(k) can only be used to rehabilitate units in one-to-four unit structures. However, this does not mean that the condominium project, as a whole, can only have four units or that all individual structures must be detached.

Example: A project might consist of 6 buildings each containing 4 units, for a total of 24 units in the project and, thus, be eligible for Section 203(k). Likewise, a project could contain a row of more than four attached townhouses and be eligible for Section 203(k) because HUD considers each townhouse as one structure, provided each unit is separated by a 1 1/2 hour firewall (from foundation up to the roof).

Similar to a project with a condominium unit with a mortgage insured under Section 234(c) of the National Housing Act, the condominium project must be approved by HUD prior to the closing of any individual mortgages on the condominium units.

How the Program can Be Used

This program can be used to accomplish rehabilitation and/or improvement of an existing one-to-four unit dwelling in one of four ways:

A. To purchase a dwelling and the land on which the dwelling is located and rehabilitate it.

B. To purchase a dwelling on another site, move it onto a new foundation on the mortgaged property and rehabilitate it.

C. To refinance existing indebtedness and rehabilitate such a dwelling.

For A and C above, the mortgage must be a first lien on the property and the loan proceeds (other than rehabilitation funds) may be available before the rehabilitation begins.

For B above, the mortgage must be a first lien on the property; however, loan proceeds for the moving of the house cannot be made available until the unit is attached to the new foundation.

Eligible Improvements

Mortgage proceeds must be used in part for rehabilitation and/or improvements to a property. There is a minimum $5000 requirement for the eligible improvements on the existing structure (s) on the property. Rehabilitation or improvements or improvements to a detached garage, a new detached garage, or the addition of an attached unit(s) (if allowed by the local zoning ordinances) can also be included in this first $5000. Properties with separate detached units are acceptable, however, a newly constructed unit must be attached to an existing unit to be eligible under 203(k).

Any repair is acceptable in the first $5000 requirement that may affect the health and safety of the occupants. Minor or cosmetic repairs by themselves cannot be included in the first $5000, but may be added after the $5000 threshold is reached.

Examples of eligible improvements are listed below. (This list is not all inclusive.)

A. Structural alterations and reconstruction (e.g., repair or replacement of structural damage, chimney repair, additions to the structure, installation of an additional bath(s), skylights, finished attics and/or basements, repair of termite damage and the treatment against termites or other insect infestation, etc.)

B. Changes for improved functions and modernization (e.g., remodeled bathrooms and kitchens, including permanently installed appliances, i.e., built-in range and/or oven, range hood, microwave, dishwasher).

C. Elimination of health and safety hazards (including the resolution of defective paint surfaces or lead-based paint problems on homes built prior to 1978).

D. Changes for aesthetic appeal and elimination of obsolescence (e.g., new exterior siding, adding a second story to the home, covered porch, stair railings, attached carport).

E. Reconditioning or replacement of plumbing (including connecting to public water and/or sewer system), heating, air conditioning and electrical systems.

Installation of new plumbing fixtures is acceptable, including interior whirlpool bathtubs.

F. Installation of Well and/or Septic System. The well or septic system must be installed or repaired prior to beginning any other repairs to the property. A property less than 1/2 acre with a separate well or septic system is not acceptable; also, a property less than 1 acre with both a well and a septic system is unacceptable. Lots smaller than these sizes, usually have problems in the future; however, the local HUD Field Office can approve smaller lot size requirements where the local health authority can justify smaller lots.

The installation of a new well or the repair of an existing well (used for the primary water source to the property) can be allowed provided there is adequate documentation to show them is reason to believe the well will produce a sufficient amount of potable water for the occupants. (A well log of surrounding properties from the local health authority is acceptable documentation.) Refer to HUD Handbook 4910.1, Appendix K, for additional information.

G. Roofing, gutters and downspouts.

H. Flooring, tiling and carpeting.

I. Energy conservation improvements (e.g., new double pane windows, steel insulated exterior doors, insulation, solar domestic hot water systems, caulking and weather-stripping, etc.).

J. Major landscape work and site improvement , patios, decks and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the roperty from erosion. The correction of grading and drainage problems is also acceptable. Tree removal is acceptable if the tree is a safety hazard to the property. Repair of existing walks and driveway is acceptable if it may affect the safety of the property.

(Fencing, new walks and driveways, and general landscape work (i.e., trees, shrubs, seeding or sodding) cannot be in the first $5000 requirement.)

K. Improvements for accessibility to a Disabled Person (e.g., remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc.).

When basic improvements are involved, the following costs can be included in addition to the minimum $5000 requirement:

New free standing range, refrigerator, washer and dryer, trash compactor and other appurtenances. (Used appliances are not eligible).

Interior and exterior painting.

The repair of a swimming pool, not to exceed $1,500. Repair costs exceeding the $1,500 limit must be paid into the contingency reserve fund by the borrower. The installation of a new swimming pool is not allowed.

Luxury items and improvements that do not become a permanent part of the real property are not eligible as a cost of rehabilitation. The items listed below (not limited to this list) are not acceptable under the 203(k) program, including the repair of any of the following:

Barbecue pit; bathhouse; dumbwaiter; exterior hot tub; sauna, spa and whirlpool bath; outdoor fireplace or hearth; photo mural; installation of a new swimming pool; gazebo; television antenna; satellite dish; tennis court; tree surgery. Additions or alterations to provide for commercial use are not eligible.

Required Improvements

All rehabilitation construction and/or additions financed with Section 203(k) mortgage proceeds must comply with the following:

A. Cost Effective Energy Conservation Standards

(1) Addition to Existing Structure. New construction must conform with local codes and HUD Minimum Property Standards in 24 CFR 200.926d.

(2) Rehabilitation of Existing Structure. To improve the thermal efficiency of the dwelling, the following are required:

a) Weatherstrip all doors and windows to reduce infiltration of air when existing weatherstripping is inadequate or nonexistent.

b) Caulk or seal all openings, cracks or joints in the building envelope to reduce air infiltration.

c) Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation. Insulate ceiling areas where necessary.

d) Adequately ventilate attic and crawl space areas.

For additional information and requirements, refer to 24 CFR Part 39.

3) Replacement Systems

a) Heating, ventilating, and air conditioning system supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.

b) Heating systems, burners, and air conditioning systems must be carefully sized to be no greater than 15 percent oversized for the critical design, heating or cooling, except to satisfy the manufacturer's next closest nominal size.

B. Smoke Detectors. Each Sleeping area must be provided with a minimum of one (1) approved, listed and labeled smoke detector installed adjacent to the sleeping area.

Required Appraisals

In order to determine the maximum mortgage amount, the 203(k) valuation analysis consists of two separate determinations of value.

A. As-Is Value. A separate appraisal (Uniform Residential Appraisal Report) may be required to determine the as-is value. However, the lender may determine that an as-is appraisal is not feasible or necessary. In this instance, the lender may use the contract sales price on a purchase transaction, or the existing debt on a refinance transaction, as the as-is value, when this does not exceed a reasonable estimate of value.

Further, on a refinance transaction, when a large amount of existing debt (i.e., first and second mortgages) suggests that the borrower has little or no equity in the property, the lender must obtain a current as-is appraisal on which to base the estimated as-is value.

On a refinance, the borrower may have substantial equity in the property to assure that no further down payment is required on the new loan amount. In some cases, the borrower will not have an existing mortgage on the property. In this case, the lender should obtain some comparables from a real estate agent/broker to estimate an approximate as-is value of the property. Another way of establishing the as-is value is to obtain a copy of the local jurisdiction tax valuation on the property.

B. Value After Rehabilitation. The expected market value of the property is determined upon completion of the proposed rehabilitation and/or improvements.

For a HUD-owned property an as-is appraisal is not required and a DE lender may request the HUD Field Office to release the outstanding HUD Property Disposition appraisal on the property to the lender to establish the maximum mortgage for the property. The HUD appraisal will be considered acceptable for use by the lender if: (1) it is not over one year old prior to bid acceptance from HUD; and (2) the sales contract price plus the cost of rehabilitation does not exceed 110 percent of the "As-Repaired Value" shown on the HUD appraisal. If the HUD appraisal is insufficient, the DE Lender may order another appraisal to assure the market value of the property will be adequate to make the purchase of the property feasible. For a HUD-property, downpayment for an owner-occupant or non-profit organization is 3% of the accepted bid price of the property and 100% financing on all other costs. For an investor, the downpayment requirement is 15% of all costs.

Recently Acquired Properties

Homebuyers (including investors) who purchase a property with cash can refinance the property using 203(k) within six (6) months of purchase, the same as if the buyer purchased the property with a 203(k) insured loan to begin with. Evidence of interim financing is not required; the mortgage calculations will be done the same as a purchase transaction. Cash back will be allowed to the borrower in this situation less any downpayment and closing cost requirement for the 203(k) loan. A copy of the Sales Contract and the HUD-1 Settlement Statement must be submitted to verify the accepted bid price (as-is value) of the property and the closing date.

Architectural Exhibits

The improvements must comply with HUD's Minimum Property Standards (24 CFR 200.926d and/or HUD Handbook 4905.1) and all local codes and ordinances. The homebuyer may decide to employ an architect or a consultant to prepare the proposal. The homebuyer must provide the lender with the appropriate architectural exhibits that clearly show the scope of work to be accomplished. The following list of exhibits are recommended, but may be modified by the local HUD Field Office as required.

A. A Plot Plan of the Site is required only if a new addition is being made to the existing structure. Show the location of the structure(s), walks, drives, streets, and other relevant detail. Include finished grade elevations at the property comers and building comers. Show the required flood elevation.

B. Proposed Interior Plan of the Dwelling. Show where structural or planning changes are contemplated, including an addition to the dwelling. (An existing plan is no longer required.)

C. Work Write-up and Cost Estimate. Any format may be used for these documents, however, quantity and the cost of each item must be shown. Also include a complete description of the work for each item (where necessary). The Rehabilitation Checklist in Appendix 1 of Handbook 4240.4 REV-2 should be used to ensure all work items are considered. Transfer the costs to the Draw Request (Form HUD 9746-A).

Cost estimates must include labor and materials sufficient to complete the work by a contractor. Homebuyers doing their own work cannot eliminate the cost estimate for labor, because if they cannot complete the work there must be sufficient money in the escrow account to get a subcontractor to do the work. The Work Write-up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are nonstandard units.

The consultant who prepares the work write-up and cost estimate (or an architect, engineering or home inspection service) needs to inspect the property to assure: (1) there are no rodents, dryrot, termites and other infestation; (2) there are no defects that will affect the health and safety of the occupants; (3) the adequacy of the existing structural, heating, plumbing, electrical and roofing systems; and (4) the upgrading of thermal protection (where necessary).

Definitions for Use in the 203(k) Program

A. Insurance of Advances. This refers to insurance of the 203(k) mortgage prior to the rehabilitation period.

A mortgage that is a first lien on the property is eligible to be endorsed for insurance following mortgage loan closing, disbursement of the mortgage proceeds, and establishment of the Rehabilitation Escrow Account.

The mortgage amount may include funds for the purchase of the property or the refinance of existing indebtedness, the costs incidental to closing the transaction, and the completion of the proposed rehabilitation. The mortgage proceeds allocated for the rehabilitation will be escrowed at closing in a Rehabilitation Escrow Account.

B. Rehabilitation Escrow Account. When the loan is closed, the proceeds designated for the rehabilitation or improvement, including the contingency reserve, are to be placed in an interesting escrow account insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). This account is not an escrow for the paying of real estate taxes, insurance premiums, delinquent notes, ground rents or assessments, and is not to be treated as such. The net income earned by the Rehabilitation

Escrow Account must be paid to the mortgagor. The method of such payment is subject to agreement between mortgagor and mortgagee.

The lender (or its agent) will release escrowed funds upon completion of the proposed rehabilitation in accordance with the Work Write-Up and the Draw Request (Form HUD 9746-A).

C. Inspections. Performed by HUD-approved fee inspectors or on the HUD-accepted staff of the DE lender. The fee inspector is to use the architectural exhibits in order to make a determination of compliance or non-compliance. When the inspection is scheduled with a payment, the inspector is to indicate whether or not the work has been completed. Also, the inspector is to use the Draw Request form (Form HUD 9746-A). The first draw must not be scheduled until the lender has determined that the applicable building permits have been issued.

D. Holdback. A ten (10) percent holdback is required on each release from the Rehabilitation Escrow Account. The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the Final Release Notice. The lender (or its agent) may retain the holdback for a maximum of 35 calendar days, or the time period required by law to file a lien, whichever is longer, to ensure that no liens are placed on the property.

E. Contingency Reserve. At the discretion of the HUD Field Office, the cost estimate may include a contingency reserve if the existing construction is less than 30 years old, or the nature of the work is complex or extensive. For properties older than 30 years, the cost estimate must include a contingency reserve of a minimum of ten (10) percent of the cost of rehabilitation; however, the contingency reserve may not exceed twenty (20) percent where major remodeling is contemplated. If the utilities were not turned on for inspection, a minimum fifteen (15) percent is required. If the scope of work is well defined and uncomplicated, and the rehabilitation cost is less then $7500, the lender may waive the requirement for a contingency reserve.

The contingency reserve account can be used by the borrower to make additional improvements to the dwelling. A Request for Change Letter must be submitted with the applicable cost estimates. However, the change can only be accepted when the lender determines: (1) It is unlikely that any deficiency that may affect the health and safety of the property will be discovered; and (2) the mortgage will not exceed 95% (owner-occupant) or 85% (investor) of the appraised value of the property. If the mortgage exceeds 95% or 85% of the appraised value, then the contingency reserve must be paid down on the mortgage principal.

If a borrower feels that the contingency reserve will not be used and he wishes to avoid having the reserve applied to reduce the mortgage balance after issuance of the Final Release Notice, the borrower may place his own funds into the contingency reserve account. In this case, if monies are remaining in the account after the Final Release Notice is issued, the monies may be released back to the borrower.

If the mortgage is at the maximum mortgage limit for the area or for the particular type of transaction, but a contingency reserve is necessary, the contingency reserve must be placed into an escrow account from other funds of the borrower at closing. Under these circumstances, if the contingency reserve is not used, the remaining funds in the escrow account will be released to the borrower after the Final Release Notice has been issued.

F. Mortgage Payment Reserve. Funds not to exceed the amount of six (6) mortgage payments (including the mortgage insurance premium) can be included in the cost of rehabilitation to assist a mortgagor (whether a principal residence or an investment property) when the property is not occupied during rehabilitation. The number of mortgage payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement. The lender must make the monthly mortgage payments directly from the interest bearing reserve account. Monies remaining in the reserve account after the Final Release Notice must be applied to the mortgage principal.

G. Approval of Non-Profit Agencies. A non-profit agency, before it can be approved as an eligible mortgagor and obtain the same mortgage amount as available to owner-occupants on Section 203(k) mortgages, must demonstrate its experience as a housing provider to HUD and meet all other requirements described in HUD Handbook 4155.1 REV-4, paragraphs 1-5. (Otherwise, the non-profit is limited to 85 percent mortgages as any other investor.) It must also be able to provide satisfactory evidence that it has the financial capacity to purchase the properties.

Maximum Mortgage Amount

The mortgage amount, when added to any other existing indebtedness against the property, cannot exceed the applicable loan-to-value ratio and maximum dollar amount limitations prescribed for similar properties under Section 203(b). The Mortgage Payment Reserve is considered a part of the cost of rehabilitation for determining the maximum mortgage amount.

A. Maximum Mortgage Calculation. The value is defined as the lesser of:

1) The as-is value of the property before rehabilitation plus the cost of rehabilitation; or

2) 110 percent of the expected market value of the property upon completion of the work.

Principal Residence (Owner-Occupant) & HUD Approved Non-Profit Organization. The maximum mortgage amount is to be based upon 97/95/90 percent of the HUD estimate of value in 1) or 2) above.

Investment Property (Non-Occupant Mortgagor or Builder/Rehabber). The maximum mortgage amount will be based on 85 percent of the HUD estimate of value in 1) or 2) above.

Escrow Commitment Procedure. A borrower (owner-occupant, non-profit or Government agency or an investor builder) who purchases or refinances a property but intends to sell the rehabilitated property to a mortgagor acceptable to HUD, may qualify for a mortgage based on the loan-to-value ratio and maximum dollar amount limitations prescribed under Section 203(b) for a principal residence, provided the dollar difference between the maximum mortgage amount and the mortgage amount available to an investor is placed in escrow with the lender.

To allow for maximum owner-occupant financing when the loan is assumed (by an owner-occupant acceptable to HUD) and to avoid the extra cost for a new mortgage, the downpayment requirement for the investor may be based on the market value of the property after rehabilitation. The difference between the downpayment requirements for an owner-occupant and a borrower would be retained in an escrow account.

If the property is not sold prior to the 18th (36th for a non-profit using a lease option contract) amortization payment of the mortgage, the entire escrow amount must be applied as a principal balance and reduce the mortgage amount.

A First Time Homebuyer (FTH) can assume the mortgage for no downpayment. An owner-occupant who is not a FTH must provide a downpayment into the deal. Another investor could assume the loan by putting a 15% downpayment into the deal. If the resale price is less than the appraised value of the property, the mortgage amount must be reduced so that the purchaser maintains a minimum downpayment based on the acquisition price. If the resale price is greater than the appraised value, the purchaser must make a larger downpayment.

Example: Assume a Builder/Rehabber can purchase a property for $50,000, and the cost of rehabilitation will be $20,000. The Builder/ Rehabber will have to put a minimum 15% downpayment ($10,500) on the acquisition cost of $70,000 ($50,000 + $20,000). If the after-rehab appraisal shows the market value of the property will be $100,000 after the completion of the rehabilitation, then the mortgage for an owner-occupant who will assume the loan will be $95,500. The Builder/Rehabber will apply $10,500 to the escrow account and the loan proceeds will provide $25,500 (95,500 $70,000). When the loan is assumed by a qualified borrower, the total amount of $36,000 ($10,500 + $25,500) in the escrow commitment account will be released to the Builder/Rehabber. A First Time Homebuyer could assume this mortgage for no downpayment.

B. Cost of Rehabilitation. Expenses eligible to be included in the cost of rehabilitation are materials, labor, contingency reserve, overhead and construction profit, up to six (6) months of mortgage payments, plus expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector, licenses and consultant and/or architectural/engineering fees.

The cost of rehabilitation may also include the supplemental origination fee which the mortgagor is permitted to pay when the mortgage involves insurance of advances, and the discounts which the mortgagor will pay on that portion of the mortgage proceeds allocated to the rehabilitation.

C. Exemption of the Market Value Limitation. The 203(k) Regulations allow for a waiver of the market value limitation, which allows the appraiser to go outside the targeted area to obtain the value of comparable properties. Such requests must be forwarded to the Assistant Secretary of Housing-Federal Housing Commissioner at the HUD Headquarters. Requests must include documentation that the following conditions are present:

1) The property is located within an area which is subject to a community sponsored program of concentrated redevelopment or revitalization (See 24 CFR Part 220).

2) The market value loan limitation prevents the use of the program to accomplish rehabilitation in the subject area.

3) The interests of the borrower and the Secretary of HUD are adequately protected.

D. Solar Energy Increase. The mortgage is eligible for an increase of up to 20 percent in the maximum insurable mortgage amount if such an increase is necessary for the installation of solar energy equipment. The solar energy system's contribution to value will be limited by its replacement cost or by its effect on the value of the dwelling.

E. Energy Efficient Mortgage Program. Under the FHA EEM Program, a borrower can finance into the mortgage 100 percent of the cost of eligible energy efficient improvements, subject to certain dollar limitations, without an appraisal of the energy improvements and without further credit qualification of the borrower.

To be eligible for inclusion into the mortgage, the energy efficient imrpovements must be "cost effective," i.e., the total cost of the improvements (including maintenance costs) must be less than the total present value of the energy saved over the useful life of the improvements. The cost of any improvement to the property that will increase the property's energy efficiency and that is determined to be "cost effective" is eligible for financing into the mortgage and its cost may be added to the mortgage amount up to the greater of:

1. 5% of the property's value (not to exceed $8000) or,

2. $4000.

"Cost effective" means that the total cost of the improvements, including any maintenance costs, is less than the total present value of the energy saved over the useful life of the energy improvement. The FHA maximum loan limit for the area may be exceeded by the cost of the energy efficient improvements. However, the entire mortgage cannot exceed 110% of the value of the property.

The cost of the energy improvements and the estimate of the energy savings must be determined based upon a physical inspection of the property by a home energy rating system (HERS) or energy consultant. For a 203(k) loan, the entire cost of the HERS or the energy consultant can be included in the mortgage.

On new construction (an addition or new building on an existing foundation), the energy improvement must be over and above those required for compliance with the current FHA energy conservation standards for new construction. The estimate of the energy savings in new construction must be based upon a comparison of plans and specification of the house with the additional energy saving improvements to those of the basic house which complies with the current FHA energy conservation standards. Presently, these standards are those of the 1992 CABO Model Energy Code (MEC).

The energy inspection of the property must be performed prior to completion of the work writeup and cost estimate to assure there is no duplication of work items in the mortgage. After the completion of the appraisal, the cost of the energy improvements are calculated by the lender to determine how much can be added to the mortgage amount.

Seven Unit Limitation

HUD regulations and policies state than an investor should not be allowed to rapidly accumulate FHA insured properties that clearly and collectively constitute a multifamily project. In general, a borrower may not have an interest in more than seven rental units (FHA, VA, conventional or owned free and clear of any mortgage) in the same subdivision or contiguous area. For 203(k) purposes, HUD defines a contiguous area as "within a two block radius."

The seven unit limitation does not apply if: (1) the neighborhood has been targeted by a State or local government for redevelopment or revitalization; and (2) the State or local government has submitted a plan to HUD that defines the area, extent and type of commitment to redevelop the area. A restriction may still be imposed (by HUD) within a redevelopment area (or sub-area) in order to prevent undesirable concentrations of units under a single (or group) ownership. HUD will determine that the seven unit limit is inapplicable only if: (1) the investor will own no more than 10 percent of the housing units (regardless of financing type) in the designated redevelopment area or sub-area; and (2) the investor has no more than eight units on adjacent lots.

Interest Rate and Discount Points

These are not regulated and are negotiable between the borrower and the lender. The amortization of the loan will be for 30 years; however, provisions of the Section 203(k) mortgage (described in Section 203.21 of the Regulations) are the same as prescribed under Section 203(b).

Maximum Charges and Fees

The statutory requirements and administrative policies of Section 203(k) result in deviations from the maximum amount of charges and fees permitted under Section 203(b).

A. Supplemental Origination Fee. When the Section 203(k) mortgage involves insurance of advances, the lender may collect from the mortgagor a supplemental origination fee. This fee is calculated as one and one-half percent (1-1/2%) of the portion of the mortgage allocated to the rehabilitation or $350, whichever is greater. This supplemental origination fee is collected in addition to the one percent origination fee on the total mortgage amount.

B. Independent Consultant Fee. A borrower can have an independent consultant prepare the required architectural exhibits. A borrower can also use a contractor to prepare the construction exhibits or prepare the exhibits themselves. The use of a consultant is not required; however, the borrower should consider using this service in order to expedite the processing of the 203(k) loan. When a consultant is used, HUD does not warrant the competence of the consultant or the quality of the work the consultant may perform for the borrower.

The consultant must enter into a written agreement with the borrower that completely explains what services the consultant will perform for the borrower and the fee charged. The fee charged by the consultant can be included in the mortgage.

A fee of $400 is acceptable for a property with repairs less than $7,500; $500 for repairs between $7,501 and $15,000; $600 for repairs between $15,001 and $30,000; and $700 for repairs between $30,001 and $50,000; $800 for repairs between $50,001 and $75,000; $900 for repairs between $75,001 and $100,000; and $1,000 for repairs over $100,000. An additonal fee of $25 can be charged for each additional unit in the property under the same FHA case number. For this fee, the consultant would inspect the property and provide all the required architectural exhibits. State licensed Architect or Engineer fees are not restricted by this fee schedule. The architect and engineer fees must be customary and reasonable for the type of project.)

C. Plan Review Fee. Prior to the appraisal, a HUD accepted plan reviewer (or fee consultant) must visit the site to ensure compliance with program requirements. The utilities must be on for this site review to take place. The fee is as follows and may not be changed without HUD Headquarters approval:

1) Initial review prior to appraisal:

Cost of Repairs Fee

<$15,000 $100.00

>$15,001;=<$30,000 $150.00

>$30,001 $200.00

2) Additional unit review (two to four units with same case number)-$50.00/unit.

3) Additional review (reinspection of the same unit)-$50.00.

When travel distance exceeds 30 miles round trip from the reviewer's place of business, a mileage charge (established by HUD Field Office) may be applied to the above charges, including toll road and other charges where applicable.

D. Appraisal Fee. To process a Section 203(k) mortgage, two appraisals can be performed: (1) As-is value of the property; and (2) Estimated market value of the property assuming completion of the rehabilitation. The maximum fee which a lender may collect for these two appraisals is one and one-half times the amount permitted for a Section 203(b) proposed construction appraisal, as established by the HUD Field Office. If only one appraisal is done, the fee will be the same as a proposed construction appraisal.

E. Inspection Fee (during the rehabilitation construction period). Established by the local HUD Field Office.

1) Fees for a maximum of five draw inspections will be allowed for inclusion in the cost of rehabilitation. If all inspections are not required, remaining funds will be applied to the principal after the Final Release Notice is issued.

2) If additional inspections are required by the lender to ensure satisfactory compliance with exhibits, the borrower or contractor will be responsible for payment; however, the lender has ultimate responsibility.

F. Title Update Fee. To protect the validity of the mortgage position from mechanics liens on the property, reasonable fees charged by a title company may be included as an allowable cost of rehabilitation. When the mortgage position is protected and is not in jeopardy, this fee may not apply. Borrowers may wish to obtain lien protection, but the fees must be paid by the borrower where such lien protection is not required to ensure the validity of the security instrument.

The allowable fee should not exceed $50.00 per draw release. If all draw inspections are not made, monies left in escrow must be applied to reduce the mortgage balance.

Application Process

This describes a typical step-by-step application/mortgage origination process for a transaction involving the purchase and rehabilitation of a property. It explains the role of HUD, the mortgage lender, the contractor, the borrower, consultant, the plan reviewer, appraiser and the inspector.

A. Homebuyer Locates the Property.

B. Preliminary Feasibility Analysis. After the property is located, the homebuyer and their realtor should make a marketability analysis prior to signing the sales contract. The following should be determined:

1) The extent of the rehabilitation work required;

2) Rough cost estimate of the work; and

3) The expected market value of the property after completion of the work.

Note: The borrower does not want to spend money for appraisals and repair specifications (plans), then discover that the value of the property will be less than the purchase price (or existing indebtedness), plus the cost of improvements.

C. Sales Contract is Executed. A provision should be included in the sales contract that the buyer has applied for Section 203(k) financing, and that the contract is contingent upon loan approval and buyer's acceptance of additional required improvements as determined by HUD or the lender.

D. Homebuyer Selects Mortgage Lender. Call HUD Field Office for list of lenders.

E. Homebuyer Prepares Work Write-up and Cost Estimate. A consultant an help the buyer prepare the exhibits to speed up the loan process. If a plan reviewer is the consultant, item G can be skipped and the exhibits can go directly to the appraisal stage.

F. Lender Requests HUD Case Number. Upon acceptance of the architectural exhibits, the lender requests the assignment of a HUD case number, the plan reviewer, appraiser, and the inspector.

G. Plan Reviewer Visits Property. The homebuyer and contractor (where applicable) meet with the plan reviewer to ensure that the architectural exhibits are acceptable and that all program requirements have been properly shown on the exhibits.

H. Appraiser Performs the Appraisal.

I. Lender Reviews the Application. The appraisal is reviewed to determine the maximum insurable mortgage amount for the property.

J. Issuance of Conditional Commitment/Statement of Appraised Value. This is issued by the Lender and establishes the maximum insurable mortgage amount for the property.

K. Lender Prepares Firm Commitment Application. The borrower provides information for the lender to request a credit report, verifications of employment and deposits, and any other source documents needed to establish the ability of the borrower to repay the mortgage.

L. Lender Issues Firm Commitment. If the application is found acceptable, the firm commitment is issued to the borrower. It states the maximum mortgage amount that HUD will insure for the borrower and the property.

M. Mortgage Loan Closing. After issuance of the firm commitment, the lender prepares for the closing of the mortgage. This includes the preparation of the Rehabilitation Loan Agreement. The Agreement is executed by the borrower and the lender in order to establish the conditions under which the lender will release funds from the Rehabilitation Escrow Account.

Following closing, the borrower is required to begin making mortgage payments on the entire principal amount for the mortgage, including the amount in the Rehabilitation Escrow Account that has not yet been disbursed.

N. Mortgage Insurance Endorsement. Following loan closing, the lender submits copies of the mortgage documents to the HUD office for mortgage insurance endorsement. HUD reviews the submission and, if found acceptable, issues a Mortgage Insurance Certificate to the lender.

O. Rehabilitation Construction Begins. At loan closing, the mortgage proceeds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be established. Construction may begin. The homeowner has up to six (6) months to complete the work depending on the extent of work to be completed. (Lenders may require less than six months.)

P. Releases from Rehabilitation Escrow Account. As construction progresses, funds are released after the work is inspected by a HUD approved inspector. A maximum of four draw inspections plus a final inspection are allowed. The inspector reviews the Draw Request (Form HUD 9746-A) that is prepared by the borrower and contractor.

If the cost of rehabilitation exceeds $10,000, additional draw inspections are authorized provided the lender and borrower agree in writing and the number of draw inspections is shown on Form HUD 92700, 203(k) Maximum Mortgage Worksheet.

Q. Completion of Work/Final Inspection. When all work is complete according to the approved architectural exhibits and change orders, the borrower provides a letter indicating that all work is satisfactorily complete and ready for final inspection. If the HUD approved inspector agrees, the final draw may be released, minus the required 10 percent holdback. If there is unused contingency funds or mortgage payment reserves in the Account, the lendermust apply the funds to prepay the mortgage principal.

Role of the Real Estate Broker

Frequently, the first person you consult about buying a home is a real estate agent or broker. Although real estate brokers provide helpful advice on many aspects of home buying, they may serve the interests of the seller, and not your interests as the buyer. The most common practice is for the seller to hire the broker to find someone who will be willing to buy the home on terms and conditions that are acceptable to the seller. Therefore, the real estate broker you are dealing with may also represent the seller. However, you can hire your own real estate broker, known as a buyer’s broker, to represent your interests. Also, in some states, agents and brokers are allowed to represent both buyer and seller.

Even if the real estate broker represents the seller, state real estate licensing laws usually require that the broker treat you fairly. If you have any questions concerning the behavior of an agent or broker, you should contact your State's Real Estate Commission or licensing department.

Sometimes, the real estate broker will offer to help you obtain a mortgage loan. He or she may also recommend that you deal with a particular lender, title company, attorney or settlement/closing agent. You are not required to follow the real estate broker's recommendation. You should compare the costs and services offered by other providers with those recommended by the real estate broker.

Choosing An Attorney

Before you sign an agreement of sale, you might consider asking an attorney to look it over and tell you if it protects your interests. If you have already signed your agreement of sale, you might still consider having an attorney review it. An attorney can also help you prepare for the settlement. In some areas attorneys act as settlement/closing agents or as escrow agents to handle the settlement.

An attorney who does this will not solely represent your interests, since, as settlement/closing agent, he or she may also be representing the seller, the lender and others as well.

If choosing an attorney, you should shop around and ask what services will be performed for what fee. Find out whether the attorney is experienced in representing home buyers. You may wish to ask the attorney questions such as:

What is the charge for negotiating the agreement of sale, reviewing documents and giving advice concerning those documents, for being present at the settlement, or for reviewing instructions to the escrow agent or company?

Will the attorney represent anyone other than you in the transaction?

Will the attorney be paid by anyone other than you in the transaction?

Please note, in many areas of the country attorneys are not normally involved in the home sale. For example, escrow agents or escrow companies in western states handle the paperwork to transfer title without any attorney involvement.

Terms of the Sales Agreement

Here are some important points to consider. The real estate broker probably will give you a preprinted form of agreement of sale. You may make changes or additions to the form agreement, but the seller must agree to every change you make. You should also agree with the seller on when you will move in and what appliances and personal property will be sold with the home.

Sales Price. For most home purchasers, the sales price is the most important term. Recognize that other non-monetary terms of the agreement are also important.

Title. "Title" refers to the legal ownership of your new home. The seller should provide title, free and clear of all claims by others against your new home. Claims by others against your new home are sometimes known as "liens" or "encumbrances." You may negotiate who will pay for the title search which will tell you whether the title is "clear."

Mortgage Clause. The agreement of sale should provide that your deposit will be refunded if the sale has to be canceled because you are unable to get a mortgage loan. For example, your agreement of sale could allow the purchase to be canceled if you cannot obtain mortgage financing at an interest rate at or below a rate you specify in the agreement.

Pests. Your lender will require a certificate from a qualified inspector stating that the home is free from termites and other pests and pest damage. You may want to reserve the right to cancel the agreement or seek immediate treatment and repairs by the seller if pest damage is found.

Home Inspection. It is a good idea to have the home inspected. An inspection should determine the condition of the plumbing, heating, cooling and electrical systems. The structure should also be examined to assure it is sound and to determine the condition of the roof, siding, windows and doors. The lot should be graded away from the house so that water does not drain toward the house and into the basement.

Most buyers prefer to pay for these inspections so that the inspector is working for them, not the seller. You may wish to include in your agreement of sale the right to cancel, if you are not satisfied with the inspection results. In that case, you may want to re-negotiate for a lower sale price or require the seller to make repairs.

Lead-Based Paint Hazards in Housing Built Before 1978. If you buy a home built before 1978, you have certain rights concerning lead-based paint and lead poisoning hazards. The seller or sales agent must give you the EPA pamphlet "Protect Your Family From Lead in Your Home" or other EPA-approved lead hazard information. The seller or sales agent must tell you what the seller actually knows about the home's lead-based paint or lead-based paint hazards and give you any relevant records or reports.

You have at least ten (10) days to do an inspection or risk assessment for lead-based paint or lead-based paint hazards. However, to have the right to cancel the sale based on the results of an inspection or risk assessment, you will need to negotiate this condition with the seller.

Finally, the seller must attach a disclosure form to the agreement of sale which will include a Lead Warning Statement. You, the seller, and the sales agent will sign an acknowledgment that these notification requirements have been satisfied.

Other Environmental Concerns. Your city or state may have laws requiring buyers or sellers to test for environmental hazards such as leaking underground oil tanks, the presence of radon or asbestos, lead water pipes, and other such hazards, and to take the steps to clean-up any such hazards. You may negotiate who will pay for the costs of any required testing and/or clean-up.

Sharing of Expenses. You need to agree with the seller about how expenses related to the property such as taxes, water and sewer charges, condominium fees, and utility bills, are to be divided on the date of settlement. Unless you agree otherwise, you should only be responsible for the portion of these expenses owed after the date of sale.

Settlement Agent/Escrow Agent. Depending on local practices, you may have an option to select the settlement agent or escrow agent or company. For states where an escrow agent or company will handle the settlement, the buyer, seller and lender will provide instructions.

Settlement Costs. You can negotiate which settlement costs you will pay and which will be paid by the seller. ">

Choosing A Settlement Agent

Settlement practices vary from locality to locality, and even within the same county or city.

Settlements may be conducted by lenders, title insurance companies, escrow companies, real estate brokers or attorneys for the buyer or seller. You may save money by shopping for the settlement agent.

In some parts of the country (particularly western states), settlement may be conducted by an escrow agent. The parties sign an escrow agreement which requires them to provide certain documents and funds to the agent. Unlike other types of settlement, the parties do not meet around a table to sign documents. Ask how your settlement will be handled.

Securing Title Services

Title insurance is usually required by the lender to protect the lender against loss resulting from claims by others against your new home. In some states, attorneys offer title insurance as part of their services in examining title and providing a title opinion. The attorney's fee may include the title insurance premium. In other states, a title insurance company or title agent directly provides the title insurance.

Owner's Policy. A lender’s title insurance policy does not protect you. Similarly, the prior owner’s policy does not protect you. If you want to protect yourself from claims by others against your new home, you will need an owner's policy. When a claim does occur, it can be financially devastating to an owner who is uninsured. If you buy an owner's policy, it is usually much less expensive if you buy it at the same time and with the same insurer as the lender's policy.

Choice of Title Insurer. Under RESPA, the seller may not require you, as a condition of the sale, to purchase title insurance from any particular title company. Generally, your lender will require title insurance from a company that is acceptable to it. In most cases you can shop for and choose a company that meets the lender’s standards.

Review Initial Title Report. In many areas, a few days or weeks before the settlement or closing of the escrow, the title insurance company will issue a "Commitment to Insure" or preliminary report or "binder" containing a summary of any defects in title which have been identified by the title search, as well as any exceptions from the title insurance policy’s coverage. The commitment is usually sent to the lender for use until the title insurance policy is issued at or after the settlement. You can arrange to have a copy sent to you (or to your attorney) so that you can object if there are matters affecting the title which you did not agree to accept when you signed the agreement of sale.

Coverage & Cost Savings. To save money on title insurance, compare rates among various title insurance companies. Ask what services and limitations on coverage are provided under each policy so that you can decide whether coverage purchased at a higher rate may be better for your needs.

However, in many states, title insurance premium rates are established by the state and may not be negotiable. If you are buying a home which has changed hands within the last several years, ask your title company about a "reissue rate," which would be cheaper. If you are buying a newly constructed home, make certain your title insurance covers claims by contractors. These claims are known as "mechanics' liens" in some parts of the country.

Survey. Lenders or title insurance companies often require a survey to mark the boundaries of the property. A survey is a drawing of the property showing the perimeter boundaries and marking the location of the house and other improvements. You may be able to avoid the cost of a complete survey if you can locate the person who previously surveyed the property and request an update.

Check with your lender or title insurance company on whether an updated survey is acceptable.

RESPA Disclosures

One of the purposes of RESPA is to help consumers become better shoppers for settlement services. RESPA requires that borrowers receive disclosures at various times. Some disclosures spell out the costs associated with the settlement, outline lender servicing and escrow account practices and describe business relationships between settlement service providers.

Good Faith Estimate of Settlement Costs. RESPA requires that, when you apply for a loan, the lender or mortgage broker give you a Good Faith Estimate of settlement service charges you will likely have to pay. If you do not get this Good Faith Estimate when you apply, the lender or mortgage broker must mail or deliver it to you within the next three business days.

Be aware that the amounts listed on the Good Faith Estimate are only estimates. Actual costs may vary. Changing market conditions can affect prices. Remember that the lender's estimate is not a guarantee. Keep your Good Faith Estimate so you can compare it with the final settlement costs and ask the lender questions about any changes.

Servicing Disclosure Statement. RESPA requires the lender or mortgage broker to tell you in writing, when you apply for a loan or within the next three business days, whether it expects that someone else will be servicing your loan (collecting your payments).

Affiliated Business Arrangements. Sometimes, several businesses that offer settlement services are owned or controlled by a common corporate parent. These businesses are known as "affiliates." When a lender, real estate broker,or other participant in your settlement refers you to an affiliate for asettlement service (such as when a real estate broker refers you to a mortgagebroker affiliate),

RESPA requires the referring party to give you an Affiliated Business ArrangementDisclosure. This form will remind you that you are generally not required,with certain exceptions, to use the affiliate and are free to shop for otherproviders.

HUD-1 Settlement Statement. One business day before the settlement,you have the right to inspect the HUD-1 Settlement Statement. This statementitemizes the services provided to you and the fees charged to you. This formis filled out by the settlement agent who will conduct the settlement. Besure you have the name, address, and telephone number of the settlement agentif you wish to inspect this form. The fully completed HUD-1 Settlement Statementgenerally must be delivered or mailed to you at or before the settlement.In cases where there is no settlement meeting, the escrow agent will mailyou the HUD-1 after settlement, and you have no right to inspect it one daybefore settlement.

Escrow Account Operation & Disclosures. Your lender may requireyou to establish an escrow or impound account to insure that your taxes andinsurance premiums are paid on time. If so, you will probably have to payan initial amount at the settlement to start the account and an additionalamount with each month's regular payment. Your escrow account payments mayinclude a "cushion" or an extra amount to ensure that the lender has enoughmoney to make the payments when due.

RESPA limits the amount of the cushion to a maximum of two months of escrowpayments.

At the settlement or within the next 45 days, the person servicing your loanmust give you an initial escrow account statement. That form will show allof the payments which are expected to be deposited into the escrow accountand all of the disbursements which are expected to be made from the escrow account during the year ahead. Your lender or servicer will review the escrow account annually and send you a disclosure each year which shows the prior year's activity and any adjustments necessary in the escrow payments that you will make in the forthcoming year.

Processing The Loan Application

There are several federal laws which provide you with protection during the processing of your loan.

The Equal Credit Opportunity Act ("ECOA"), the Fair Housing Act, and the Fair Credit Reporting Act ("FCRA") prohibit discrimination and provide you with the right to certain credit information.

No Discrimination. ECOA prohibits lenders from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, the fact that all or part of the applicant's income comes from any public assistance program, or the fact that the applicant has exercised any right under any federal consumer credit protection law. To help government agencies monitor ECOA compliance, your lender or mortgage broker must request certain information regarding your race, sex, marital status and age when taking your loan application.

The Fair Housing Act also prohibits discrimination in residential real estate transactions on the basis of race, color, religion, sex, handicap, familial status or national origin. This prohibition applies to both the sale of a home to you and the decision by a lender to give you a loan to help pay for that home. Finally, your locality or state may also have a law which prohibits discrimination.

Frequently, there are differences in the types and amounts of settlement costs charged to the borrower -- for example, some borrowers are charged greater fees for mortgages depending on their credit worthiness. These differences may be justified or they may be unlawfully discriminatory.

It is important that you examine your settlement documents closely, especially lines 808-811 on the HUD-1 settlement statement, and do not hesitate to compare your settlement costs with those of your friends and neighbors.

If you feel you have been discriminated against by a lender or anyone else in the home buying process, you may file a private legal action against that person or complain to a state, local or federal administrative agency. You may want to talk to an attorney; or you may want to ask the federal agency that enforces ECOA (the Board of Governors of the Federal Reserve System) or the Fair Housing Act (HUD) about your rights under these laws.

Prompt Action/Notification of Action Taken. Your lender or mortgage broker must act on your application and inform you of the action taken no later than 30 days after it receives your completed application. Your application will not be considered complete, and the 30 day period will not begin, until you provide to your lender or mortgage broker all of the material and information requested.

Statement of Reasons for Denial. If your application is denied, ECOA requires your lender or mortgage broker to give you a statement of the specific reasons why it denied your application or tell you how you can obtain such a statement. The notice will also tell you which federal agency to contact if you think the lender or mortgage broker has illegally discriminated against you.

Obtaining Your Credit Report. The Fair Credit Reporting Act ("FCRA") requires a lender or mortgage broker that denies your loan application to tell you whether it based its decision on information contained in your credit report. If that information was a reason for the denial, the notice will tell you where you can get a free copy of the credit report. You have the right to dispute the accuracy or completeness of any information in your credit report. If you dispute any information, the credit reporting agency that prepared the report must investigate free of charge and notify you of the results of the investigation.

Obtaining Your Appraisal. The lender needs to know if the value of your home is enough to secure the loan. To get this information, the lender typically hires an appraiser, who gives a professional opinion about the value of your home. ECOA requires your lender or mortgage broker to tell you that you have a right to get a copy of the appraisal report. The notice will also tell you how and when you can ask for a copy.

Settlement (Closing) Costs

A. Specific Settlement Costs

This section discusses the settlement services which you may be required to get and pay for and which are itemized in Section L of the HUD-1 Settlement Statement. You also will find a sample of the HUD-1 form to help you to understand the settlement transaction.

When shopping for settlement services, you can use this section as a guide, noting on it the possible services required by various lenders and the different fees quoted by service providers. Settlement costs can increase the cost of your loan, so compare carefully.

700. Sales/Broker's Commission: This is the total dollar amount of the real estate broker’s sales commission, which is usually paid by the seller. This commission is typically a percentage of the selling price of the home.

L. SETTLEMENT CHARGES		
700. **TOTAL SALES/BROKER’S COMMISSION based on price $ @ %=**	PAID FROM BORROWER’S FUNDS AT SETTLEMENT	PAID FROM SELLER’S FUNDS AT SETTLEMENT
Division of Commission (line 700) as follows:		
701. $ to		
702. $ to		
703. Commission paid at Settlement		
704.		

800. Items Payable in Connection with Loan: These are the fees that lenders charge to process, approve and make the mortgage loan:

801. Loan Origination: This fee is usually known as a loan origination fee but sometimes is called a "point" or "points." It covers the lender's administrative costs in processing the loan. Often expressed as a percentage of the loan, the fee will vary among lenders. Generally, the buyer pays the fee, unless otherwise negotiated.

802. Loan Discount: Also often called "points" or "discount points," a loan discount is a one-time charge imposed by the lender or broker to lower the rate at which the lender or broker would otherwise offer the loan to you. Each "point" is equal to one percent of the mortgage amount. For example, if a lender charges two points on a $80,000 loan this amounts to a charge of $1,600.

803. Appraisal Fee: This charge pays for an appraisal report made by an appraiser.

804. Credit Report Fee: This fee covers the cost of a credit report, which shows your credit history. The lender uses the information in a credit report to help decide whether or not to approve your loan and how much money to lend you.

805. Lender's Inspection Fee: This charge covers inspections, often of newly constructed housing, made by employees of your lender or by an outside inspector. (Pest or other inspections made by companies other than the lender are discussed in line 1302.)

806. Mortgage Insurance Application Fee**:** This fee covers the processing of an application for mortgage insurance.

807. Assumption Fee: This is a fee which is charged when a buyer "assumes" or takes over the duty to pay the seller's existing mortgage loan.

808. Mortgage Broker Fee: Fees paid to mortgage brokers would be listed here. A CLO fee would also be listed here.

800. **ITEMS PAYABLE IN CONNECTION WITH LOAN**		
801. Loan Origination Fee %		
802. Loan Discount %		
803. Appraisal Fee to		
804. Credit Report to		
805. Lender's Inspection Fee		
806. Mortgage Insurance Application Fee to		
807. Assumption Fee		
808. Mortgage Broker Fee		
809.		
810.		
811.		

900. <u>Items Required by Lender to Be Paid in Advance</u>: You may be required to prepay certain items at the time of settlement, such as accrued interest, mortgage insurance premiums and hazard insurance premiums.

901. Interest: Lenders usually require borrowers to pay the interest that accrues from the date of settlement to the first monthly payment.

902. Mortgage Insurance Premium: The lender may require you to pay your first year's mortgage insurance premium or a lump sum premium that covers the life of the loan, in advance, at the settlement.

903. Hazard Insurance Premium: Hazard insurance protects you and the lender against loss due to fire, windstorm, and natural hazards. Lenders often require the borrower to bring to the settlement a paid-up first year's policy or to pay for the first year's premium at settlement.

904. Flood Insurance: If the lender requires flood insurance, it is usually listed here.

900. **ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE**		
901. Interest from to @$ /day		
902. Mortgage Insurance Premium for months to		
903. Hazard Insurance Premium for years to		
904. years to		
905.		

1000 - 1008. Escrow Account Deposits: These lines identify the payment of taxes and/or insurance and other items that must be made at settlement to set up an escrow account. The lender is not allowed to collect more than a certain amount. The individual item deposits may overstate the amount that can be collected. The aggregate adjustment makes the correction in the amount on line 1008. It will be zero or a negative amount.

1000. **RESERVES DEPOSITED WITH LENDER**		
1001. Hazard Insurance months @ $ per month		
1002. Mortgage insurance months @ $ per month		
1003. City property taxes months @ $ per month		
1004. County property taxes months @ $ per month		
1005. Annual assessments months @ $ per month		
1006. months @ $ per month		
1007. months @ $ per month		
1008. Aggregate Adjustment		

1100. Title Charges: Title charges may cover a variety of services performed by title companies and others. Your particular settlement may not include all of the items below or may include others not listed.

1101. Settlement or Closing Fee: This fee is paid to the settlement agent or escrow holder. Responsibility for payment of this fee should be negotiated between the seller and the buyer.

1102-1104. Abstract of Title Search, Title Examination, Title Insurance Binder: The charges on these lines cover the costs of the title search and examination.

1105. Document Preparation: This is a separate fee that some lenders or title companies charge to cover their costs of preparation of final legal papers, such as a mortgage, deed of trust, note or deed.

1106. Notary Fee: This fee is charged for the cost of having a person who is licensed as a notary public swear to the fact that the persons named in the documents did, in fact, sign them.

1107. Attorney's Fees: You may be required to pay for legal services provided to the lender, such as an examination of the title binder. Occasionally, the seller will agree in the agreement of sale to pay part of this fee. The cost of your attorney and/or the seller’s attorney may also appear here. If an attorney's involvement is required by the lender, the fee will appear on this part of the form, or on lines 1111, 1112 or 1113.

1108. Title Insurance: The total cost of owner's and lender's title insurance is shown here.

1109. Lender's Title Insurance: The cost of the lender’s policy is shown here.

1110. Owner's (Buyer’s) Title Insurance: The cost of the owner's policy is shown here.

1100. **TITLE CHARGES**		
1101. Settlement or closing fee to		

1102. Abstract or title search to		
1103. Title examination to		
1104. Title insurance binder to		
1105. Document preparation to		
1106. Notary fees to		
1107. Attorney’s fees to		
(includes above items numbers;)		
1108. Title Insurance to		
(includes above items numbers;)		
1109. Lender’s coverage $		
1110. Owner’s coverage $		
1111.		
1112.		
1113.		

1200. Government Recording and Transfer Charges: These fees may be paid by you or by the seller, depending upon your agreement of sale with the seller. The buyer usually pays the fees for legally recording the new deed and mortgage (line 1201). Transfer taxes, which in some localities are collected whenever property changes hands or a mortgage loan is made, can be quite large and are set by state and/or local governments. City, county and/or state tax stamps may have to be purchased as well (lines 1202 and 1203).

1200. **GOVERNMENT RECORDING AND TRANSFER CHARGES**		
1201. Recording fees: Deed $; Mortgage $; Releases $		
1202. City/county tax/stamps: Deed $; Mortgage $		
1203. State tax/stamps: Deed $; Mortgage $		
1204.		
1205.		

1300. Additional Settlement Charges:

1301. Survey: The lender may require that a surveyor conduct a property survey. This is a protection to the buyer as well. Usually the buyer pays the surveyor's fee, but sometimes this may be paid by the seller.

1302. Pest and Other Inspections: This fee is to cover inspections for termites or other pest infestation of your home.

1303-1305. Lead-Based Paint Inspections: This fee is to cover inspections or evaluations for lead-based paint hazard risk assessments and may be on any blank line in the 1300 series.

1300. **ADDITIONAL SETTLEMENT CHARGES**		
1301. Survey to		

1302. Pest inspection to		
1303.		
1304.		
1305.		

1400. <u>Total Settlement Charges</u>: The sum of all fees in the borrower's column entitled "Paid from Borrower's Funds at Settlement" is placed here. This figure is then transferred to line 103 of Section J, "Settlement charges to borrower" in the **Summary of Borrower's Transaction** on page 1 of the HUD-1 Settlement Statement and added to the purchase price. The sum of all of the settlement fees paid by the seller are transferred to line 502 of Section K, **Summary of Seller's Transaction** on page 1 of the HUD-1 Settlement Statement.

1400. **TOTAL SETTLEMENT CHARGES** *(enter on lines 103, Section J and 502, Section K)*		

<u>Paid Outside Of Closing ("POC")</u>: Some fees may be listed on the HUD-1 to the left of the borrower's column and marked "P.O.C." Fees such as those for credit reports and appraisals are usually paid by the borrower before closing/settlement. They are additional costs to you. Other fees such as those paid by the lender to a mortgage broker or other settlement service providers may be paid after closing/settlement. These fees are usually included in the interest rate or other settlement charge. They are not an additional cost to you. These types of fees will not be added into the total on Line 1400.

Calculating the Amount You Need At Settlement

The first page of the HUD-1 Settlement Statement summarizes all the costs and adjustments for the borrower and seller. Section J is the summary of the borrower's transaction and Section K is the summary of the seller's side of the transaction. You may receive a copy of the seller's side, but it is not required.

Section 100 summarizes the borrower's costs, such as the contract cost of the house, any personal property being purchased, and the total settlement charges owed by the borrower from Section L.

Beginning at line 106, adjustments are made for items (such as taxes, assessments, fuel) that the seller has previously paid. If you will benefit from these items after settlement, you will usually repay the seller for that portion of the cost.

Here is an example for you to use in making your own calculations:

J. SUMMARY OF BORROWER'S TRANSACTION	
100. GROSS AMOUNT DUE FROM BORROWER:	
101. Contract sales price	**100,000.00**
102. Personal Property	
103. Settlement charges to borrower (line 1400)	**4,000.00**
104.	

105.	
Adjustments for items paid by seller in advance	
106. City/town taxes to	
107. County taxes to	
108. Assessments **6/30** to **7/31 (owners assn.)**	**40.00**
109. **Fuel Oil 25 gals. @ $1.00/gal.**	**25.00**
110.	
111.	
112.	
120. GROSS AMOUNT DUE FROM BORROWER	**104,065.00**

Assume in this example, the cost of the house is $100,000 and the borrower's total settlement charges brought from Line 1400 of Section L are $4,000. Assume that the settlement date is July 1. Here the borrower has agreed to pay the seller for the $40 Home Owners Association dues that have been paid for the month of July and for the 25 gallons of fuel oil left in the tank. This is added for a gross amount due from the borrower of $104,065.

Section 200 lists the amount paid by the borrower or on behalf of the borrower. This will include the deposit of earnest money you put down with the agreement of sale, the loan(s) you are getting and any loan you may be assuming.

Beginning at Line 210, adjustments are made for items that the seller owes (such as taxes, assessments) but for which you as the borrower will pay after settlement. The seller will usually pay you or credit you this portion at settlement.

200. AMOUNTS PAID BY OR IN BEHALF OF BORROWER:	
201. Deposit of earnest money	**2,000.00**
202. Principal amount of new loan(s)	**80,000.00**
203. Existing loan(s) taken subject to	
204.	
205.	
206.	
207.	
208.	
209.	
Adjustments for items unpaid by seller	
210. City/town taxes to	
211. County taxes **1/1 to 6/30 $1,200/ year**	**600.00**
212. Assessments **1/1 to 6/30 $200/yr.**	**100.00**
213.	
214.	
215.	

216.	
217.	
218.	
219.	
220. TOTAL PAID BY/FOR BORROWER	**82,700.00**

In this example, assume the borrower paid an earnest deposit of $2,000 and is getting a loan for $80,000. A tax of $1200 and an assessment of $200 are due at the end of the year. The seller will pay the borrower for six months or one-half of this amount. Line 220 shows the total $82,700to be paid by or for the borrower.

Section 300 reflects the difference between the gross amount due from the borrower and the total amount paid by/for the borrower. Generally, line 303 will show the amount of cash the borrower must bring to settlement.

300. CASH AT SETTLEMENT FROM/TO BORROWER	
301. Gross Amount due from borrower (line 120)	**104,065.00**
302. Less amounts paid by/for borrower (line 220)	**(82,700.00)**
303. CASH (x FROM) (_ TO) BORROWER	**21,365.00**

In this example, the borrower must bring $21,365.00 to settlement.

Adjustments To Costs Shared By Buyer and Seller

At settlement it is usually necessary to make an adjustment between buyer and seller for property taxes and other expenses. The adjustments between buyer and seller are shown in Sections J and K of the HUD-1 Settlement Statement. In the example given above, the taxes, which are payable annually, had not yet been paid when the settlement occurs on July 1. The borrower will have to pay a whole year's taxes on the following December 1. However, the seller lived in the house for the first six months of the year. Thus, one half of the year's taxes are to be paid by the seller. Accordingly, lines 211 and 511 on the HUD-1 Settlement Statement would read as follows:

211. County taxes 1/1/97 to 6/30/97	$600.00		511. County taxes 1/1/97 to 6/30/97	$600.00

The borrower is given credit for this amount at the settlement and the seller will pay this amount or count it as a deduction from sums payable to the seller.

Similar adjustments are made for homeowner association dues, special assessments, and fuel and other utilities, although the billing periods for these may not always be on an annual basis. Be sure you work out these cost sharing arrangements or "prorations" with the seller before the settlement. You may wish to notify utility companies of the change in ownership and ask for a special reading on the day of settlement, with the bill for pre-settlement charges to be mailed to the seller at his or her new address or to the settlement agent. This will eliminate much

confusion that can result if you are billed for utilities used when the seller owned the property.
HUD-1 Settlement Statement Costs

A. U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT SETTLEMENT STATEMENT				
B. TYPE OF LOAN			6. File Number	7. Loan Number
	1. o FHA	2. o FmHA		
3. o CONV. UNINS.	4. o VA	5. o CONV. INS.	8. Mortgage Insurance Case Number	
C. NOTE: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.				
D. NAME AND ADDRESS OF BORROWER:	E. NAME AND ADDRESS OF SELLER:		F. NAME AND ADDRESS OF LENDER:	
G. PROPERTY LOCATION:	H. SETTLEMENT AGENT: NAME, AND ADDRESS			
	PLACE OF SETTLEMENT:		I. SETTLEMENT DATE:	

J. SUMMARY OF BORROWER'S TRANSACTION			**K. SUMMARY OF SELLER'S TRANSACTION**	
100. **GROSS AMOUNT DUE FROM BORROWER:**			400. **GROSS AMOUNT DUE TO SELLER:**	
101. Contract sales price			401. Contract sales price	
102. Personal property			402. Personal property	
103. Settlement charges to borrower(line 1400)			403.	
104.			404.	
105.			405.	
Adjustments for items paid by seller in advance			*Adjustments for items paid by seller in advance*	
106. City/town taxes to			406. City/town taxes to	
107. County taxes to			407. County taxes to	
108. Assessments to			408. Assessments to	
109.			409.	
110.			410.	
111.			411.	
112.			412.	
120. **GROSS AMOUNT DUE FROM BORROWER**			420. **GROSS AMOUNT DUE TO SELLER**	
200. **AMOUNTS PAID BY OR IN BEHALF OF BORROWER:**			500. **REDUCTIONS IN AMOUNT DUE TO SELLER:**	
201. Deposit of earnest money			501. Excess deposit (see	

			instructions)	
202. Principal amount of new loan (s)			502. Settlement charges to seller (line 1400)	
203. Existing loan(s) taken subject to			503. Existing loan(s) taken subject to	
204.			504. Payoff of first mortgage loan	
205.			505. Payoff of second mortgage loan	
206.			506.	
207.			507.	
208.			508.	
209.			509.	
Adjustments for items unpaid by seller			*Adjustments for items unpaid by seller*	
210. City/town taxes to			510. City/town taxes to	
211. County taxes to			511. County taxes to	
212. Assessments to			512. Assessments to	
213.			513.	
214.			514.	
215.			515.	
216.			516.	
217.			517.	
218.			518.	
219.			519.	
220. **TOTAL PAID BY/FOR BORROWER**			520. **TOTAL REDUCTION AMOUNT DUE SELLER**	
300. **CASH AT SETTLEMENT FROM/TO BORROWER**			600. **CASH AT SETTLEMENT TO/FROM SELLER**	
301. Gross amount due from borrower(line 120)			601. Gross amount due to seller (line 420)	
302. Less amounts paid by/for borrower(line 220)			602. Less reductions in amount due seller (line 520)	
303. **CASH (_ FROM) (_ TO) BORROWER**			603. **CASH (o TO) (o FROM) SELLER**	

SETTLEMENT CHARGES		
700. **TOTAL SALES/BROKER’S COMMISSION based on price $ @ %=**	PAID FROM BORROWER’S FUNDS AT SETTLEMENT	PAID FROM SELLER’S FUNDS AT SETTLEMENT
Division of Commission (line 700) as follows:		

701. $ to		
702. $ to		
703. Commission paid at Settlement		
704.		
800. **ITEMS PAYABLE IN CONNECTION WITH LOAN**		
801. Loan Origination Fee %		
802. Loan Discount %		
803. Appraisal Fee to		
804. Credit Report to		
805. Lender's Inspection Fee		
806. Mortgage Insurance Application Fee to		
807. Assumption Fee		
808.		
809.		
810.		
811.		
900. **ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE**		
901. Interest from to @$ /day		
902. Mortgage Insurance Premium for months to		
903. Hazard Insurance Premium for years to		
904. years to		
905.		
1000. **RESERVES DEPOSITED WITH LENDER**		
1001. Hazard Insurance months @ $ per month		
1002. Mortgage insurance months @ $ per month		
1003. City property taxes months @ $ per month		
1004. County property taxes months @ $ per month		
1005. Annual assessments months @ $ per month		
1006. months @ $ per month		
1007. months @ $ per month		
1008. Aggregate Adjustment months @ $ per month		
1100. **TITLE CHARGES**		
1101. Settlement or closing fee to		
1102. Abstract or title search to		
1103. Title examination to		
1104. Title insurance binder to		
1105. Document preparation to		
1106. Notary fees to		
1107. Attorney's fees to		
(includes above items numbers:)		

1108. Title Insurance to		
(includes above items numbers;)		
1109. Lender’s coverage $		
1110. Owner’s coverage $		
1111.		
1112.		
1113.		
1200. **GOVERNMENT RECORDING AND TRANSFER CHARGES**		
1201. Recording fees: Deed $; Mortgage $; Releases $		
1202. City/county tax/stamps: Deed $; Mortgage $		
1203. State tax/stamps: Deed $; Mortgage $		
1204.		
1205.		
1300. **ADDITIONAL SETTLEMENT CHARGES**		
1301. Survey to		
1302. Pest inspection to		
1303.		
1304.		
1305.		
1400. **TOTAL SETTLEMENT CHARGES** *(enter on lines 103, Section J and 502, Section K)*		

All About Title 1 Loans

If the equity in your home is limited and you need money for improvements, the answer may be an FHA Title 1 loan. Banks and other qualified lenders make these loans from their own funds, and FHA insures the lender against a possible loss. This loan insurance program is authorized by Title 1 of the National Housing Act.

FHA-insured Title 1 loans may be used for any improvements that will make your home basically more livable and useful. You can use them even for dishwashers, refrigerators, freezers, and ovens that are built into the house and not free-standing. You cannot use them for certain luxury-type items such as swimming pools or outdoor fireplaces, or to pay for work already done.

Title 1 loans can also be used to make improvements for accessibility to a disabled person such as remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc. another use is energy conserving improvements or solar energy systems.

Improvements can be handled on a do-it-yourself basis or through a contractor or dealer. Your loan can be used to pay for the contractor's materials and labor. If you do the work yourself, only the cost of materials may be financed.

Some of the advantages of the Title 1 loan insurance program are:

* You do not have to live in any particular area to get one of these loans.

* You seldom need any security for loans under $7,500 other than your signature on the note, and you need no cosigner. Also, there is no equity requirement if the loan is under $15,000 or the property is owner-occupied.

* You do not have to disturb any mortgage or deed of trust you may have on your home.

* To obtain a loan, you only need to own the property or have a long-term lease on it; fill out a loan application that shows you are a good credit risk; and execute a note agreeing to repay the loan.

* Your loan can cover architectural and engineering costs, building permit fees, title examination costs, appraisal fees, and inspection fees.

* You are not hampered by a lot of red tape. Usually only the lender has to approve your loan, and can give you an answer in a few days. When the work is finished, you will need to furnish the lender with a completion certificate.

* You receive some protection from the wrong kind of dealer, because FHA requires that any dealer who arranges a loan for you must first be approved by the lender.

Finding a Title 1 Lender

To find an FHA-approved lender in your area, call HUD's Customer Service Center on our toll-free number: 1-800-767-7468 (TTY: 1-800-877-8339) for a list of lenders in your State .

Complaints about contractor fraud under the Title 1 program can be made by calling on our toll-free telephone line at 1-888-466-3487.

Equal Opportunity in Housing

The Fair Housing Act prohibits discrimination in housing and related transactions - including mortgages and home improvement loans. Lenders may not deny funds or offer less favorable terms and conditions in lending on the basis of the borrower's race, color, religion, sex, national origin, familial status (i.e., the presence or number of children in a household) or disability. In addition, lending decisions may not be based on the race, color, sex, religion, national origin, familial status or disabilities of persons associated with the borrower or with the area surrounding the property. If you believe you have been the victim of discrimination in mortgage lending on one of the prohibited bases, you may file a fair housing complaint by contacting a local fair housing advocacy group, the Office of Human Rights for your state or local government, or by calling the national Fair Housing Hotline at 1-800-669-977 (TTY: 1-800-927-9275).

Types of Title 1 Loans

		Maximum	Maximum	

Type of Loan	Type of Improvement	Term*	Amount*	Interest Rate
Single Family	Alteration, repair or improvement of an existing single family structure.	20 years	$25,000	A negotiable rate between the borrower and lender.
	Alteration, repair or improvement of a manufactured home that qualifies as real property	15 Years	$17,500	Same as above
Multifamily	Alteration, repair or improvement or conversion of an existing structure used or to be used as a dwelling for two or more families	20 years	$12,000 per dwelling unit, not to exceed $60,000	Same as above
Nonresidential	Construction of a new nonresidential structure or alteration, repair or improvement of an existing structure	20 years	$25,000	Same as above
Manufactured Home	Alteration, repair or improvement of a manufactured home classified as personal property	12 years	$5,000	Same as above
Historic Preservation	Preservation of an historic residential structure listed or eligible to be listed in the National Register of Historic Places	15 years	$15,000 per dwelling unit, not to exceed $45,000	Same as above

* Loan limits and terms are subject to change. See your local FHA-approved lender for latest information.

HUD State Offices

New England

- Massachusetts: Boston
- Maine: Bangor
- Vermont: Burlington
- New Hampshire: Manchester
- Rhode Island: Providence
- Connecticut: Hartford

New York, New Jersey

- New York: New York City
- New Jersey: Newark
-

Mid-Atlantic

- Pennsylvania: Philadelphia
- Maryland: Baltimore
- Washington, DC
- West Virginia: Charleston
- Virginia: Richmond
- Delaware: Wilmington
-

Southeast

- Georgia: Atlanta
- North Carolina: Greensboro
- Kentucky: Louisville
- Tennessee: Nashville
- South Carolina: Columbia
- Alabama: Birmingham
- Mississippi: Jackson
- Puerto Rico
- Florida: Miami/South Dade
-

Midwest

- Illinois: Chicago
- Minnesota: Minneapolis-St. Paul
- Wisconsin: Milwaukee
- Michigan: Detroit
- Ohio: Columbus

- Indiana: Indianapolis

Great Plains

- Kansas: Kansas City
- Missouri: Kansas City
- Iowa: Des Moines
- Nebraska: Omaha

Rocky Mountain

- Colorado: Denver
- Montana: Helena
- North Dakota: Fargo
- South Dakota: Sioux Falls
- Wyoming: Casper
- Utah: Salt Lake City

Southwest

- Texas: Fort Worth
- Oklahoma: Oklahoma City
- Arkansas: Little Rock
- Louisiana: New Orleans
- New Mexico: Albuquerque

Northwest/Alaska

- Washington: Seattle
- Oregon: Portland
- Idaho: Boise
- Alaska: Anchorage
-

Pacific/Hawaii

- California: San Francisco
- Nevada: Las Vegas
- Arizona: Phoenix
- Hawaii: Honolulu

HUD Area Offices

New York, New Jersey

- New York: Albany, Buffalo
- New Jersey: Camden

Mid-Atlantic

- Pennsylvania: Pittsburgh

Southeast

- Florida: Coral Gables, Jacksonville,
- Orlando, Tampa
- Tennessee: Knoxville, Memphis

Midwest

- Ohio: Cincinnati, Cleveland
- Michigan: Flint, Grand Rapids
- Illinois: Springfield

Great Plains

- Missouri: St. Louis

Southwest

- Texas: Dallas, Houston, Lubbock,
- San Antonio
- Louisiana: Shreveport

- Oklahoma: Tulsa

Northwest/Alaska

- Washington: Spokane

Pacific/Hawaii

- California: Fresno, Los Angeles,
- Sacramento, Santa Ana, San Diego
- Arizona: Tucson
- Nevada: Reno

Equal Opportunity in Housing: Racial discrimination in housing of any size is a violation of the Civil Rights Act of 1866. In addition, the Civil Rights Act of 1968 contains a Federal Fair Housing Law (Title VIII) which established fair housing as a policy of the United States. This law prohibits discrimination on the basis of race, sex, color, religion, and national origin.

Persons complaining of discrimination in housing have a choice of remedies, including filing a civil action in Federal Court (or in some cases State courts) or complaining to HUD.