

NID HouseCall

An Informational Publication of the NID-Housing Counseling Agency
(dba NID Center for Real Estate, Housing & Community Development)

The NID House Call is a quarterly publication designed to provide useful and timely information and resources to our community of stakeholders, which includes clients, consumers, real estate professionals, housing counselors, and our partners.

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NID-HCA Works With Loan Servicers

Mortgage servicers are sensitive to homeowners that are having trouble making their monthly mortgage payments. In the current mortgage market, default resolution counseling is a key resource to help troubled homeowners establish a strategy for maintaining their mortgage and other monthly expenses. Here are two examples of solutions that worked:

- Two elderly siblings who co-own a property were four months delinquent due to medical reasons, but had no money saved. Their mortgage payment is \$2,145.78 on a \$325,000 30-year loan at 6.99%. They receive a monthly combined income of \$4,500 from social security. A housing counselor helped them establish a payment plan, reducing the interest rate to 6.25%. This plan reduced the monthly mortgage to \$1845.72 and extended the repay term by transferring the delinquent four months to the end of the loan term.
- A family refinanced their home approximately two years ago, into an interest-only loan with a fixed rate for two years.



They were making the minimum interest-only payment of \$1,145.62 with the idea of refinancing at the end of the two year period to avoid the adjusted mortgage payment, which would raise the monthly payment to \$3,847.52! In negotiations with the lender, the housing counselor

emphasized the homeowners' willingness and ability to sustain an *affordable* mortgage payment, highlighting that refinancing was not an option due to the depreciated property value and the increased loan balance created by the interest-only loan. The counselor suggested an extension of the fixed rate, which would keep the payment at \$1,145.62. The

loan servicer agreed to the workout, allowing the family the comfort of affordable payments and the opportunity to refinance into a fixed-rate loan product in the future.

NID-HCA counselors can help prevent foreclosure. Please visit us online at www.nidonline.org, or contact the National office at 510-268-9792 to locate an NID-HCA office near you.



FHA Secure

President Bush has announced that the Federal Housing Administration (FHA) will help an estimated 240,000 families avoid foreclosure by enhancing its refinancing program effective immediately. Under the new *FHASecure* plan, FHA will allow families with strong credit histories who had been making timely mortgage payments before their loans reset—but are now in default—to qualify for refinancing.

The *FHASecure* initiative will operate under the same safe guidelines as the FHA's existing mortgage insurance program without affecting FHA's financial health. Eligible homeowners will be required to meet strict underwriting guidelines and pay a mortgage insurance premium, which offsets the risk to FHA's insurance fund at no cost to the taxpayer.

FHASecure, like all FHA products, will be underwritten to ensure the borrowers have the ability to repay the loan, will require escrow for taxes and insurance, and will continue to offer unprecedented foreclosure prevention assistance. The FHA has never permitted and will not include pre-payment penalties or teaser rates that are common in exotic mortgages and have caused much of the current market troubles.

To qualify for *FHASecure*, eligible homeowners must meet the following five criteria:

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Mission Statement

Our goal is to improve the quality of life in America's cities. We will accomplish this as partners working together with our friends and neighbors. We will help our communities become places where families can live in safety, prosperity and harmony; places where the American dream of homeownership can flourish, and where decent & affordable housing is a reality for all people.

NID-HCA Counselors Educate Borrowers on Mortgage Servicing

When you apply for a mortgage, you may think that the lender will service the loan until it is paid off or your house is sold. This is not always true. In today's market, mortgage servicing rights often are bought and sold.

If you are notified that your home mortgage servicing has been sold to another company, you may wonder how it will affect your loan terms and monthly payments. Some consumers have complained that they were not given enough notice of loan servicing transfers and were unfairly charged late fees and penalties. In 1990, the National Affordable Housing Act was passed to address some of these concerns.

What are the responsibilities of a mortgage servicer?

The mortgage servicer collects your monthly payments and handles your escrow account. An escrow account is a fund that your lender establishes in order to pay property taxes and hazard insurance as they become due on your home during the year. In this way, the lender uses the escrow account to guard its investment in your home.

When your escrow account is first established, your mortgage servicer must give you a statement telling you the estimated taxes, insurance premiums and other charges that are anticipated over the next 12 months and the expected totals of those payments.

The mortgage servicer also is required to give you an annual statement that details the activity of your escrow account. This statement shows your account balance and reflects payments for property taxes and homeowners insurance.

What does the Housing Act require lenders or servicers to do?

To protect consumers, the National Affordable Housing Act requires lenders or servicers to do the following:

Provide a disclosure statement.

The disclosure statement indicates if the lender intends to sell the mortgage servicing immediately, if the mortgage servicing can be sold at any time during the life of the loan, and the percentage of loans the lender has sold previously. The percentages are noted in the ranges 0-25%, 26-50%, 51-75%, and 76-100%. The lender also must

provide information about servicing procedures, transfer practices, and complaint resolution.

If you have a face-to-face interview with a lender, you must receive the disclosure statement at the time of the loan application. If you apply for a loan by mail, the lender has three business days to send you the disclosure statement after receiving your application. If you do not return a signed disclosure statement, the lender cannot fund a mortgage for you.

Give proper notification when the servicing is going to be sold.

If your current servicer plans to sell your loan servicing, you must be notified at least 15 days before the effective date of the transfer unless you received a written transfer notice at settlement. The effective date is when the first mortgage payment is due at the new servicer's address. Under certain circumstances, the current servicer has up to 30 days after the effective date of the transfer to send you notification. These circumstances include:

- The lender terminates the contract because, for example, you have defaulted on the loan.
- The servicer files for bankruptcy.
- The Federal Deposit Insurance Corporation or the Resolution Trust Corporation begins proceedings to take over the servicer's operations.

Include certain information in the notice.

If your loan servicing is going to be sold, you should receive two notices -- one from the current servicer and one from the new mortgage servicer. The new servicer must notify you not more than 15 days after the transfer has occurred. The notices must include the following information:

- Name and address of the new servicer.
- The date the current servicer will stop accepting mortgage payments and the date the new servicer will begin accepting them.
- Toll-free or collect telephone numbers for both the current servicer and the new servicer that you can call for information about the transfer of service.

- Information that tells whether you can continue any option insurance, such as mortgage life or disability insurance, and what action, if any, you must take to maintain coverage. You also must be told whether the insurance terms will change.
- A statement that the transfer will not affect any terms or conditions of the contract you signed with the original mortgage company, other than terms directly related to the servicing of such loan. For example, if your old lender did not require an escrow account, but allowed you to pay property taxes and insurance premiums on your own, the new servicer cannot demand that you establish such an account.

Grant a grace period during the transfer of the loan servicing.

After the transfer, there is a 60-day grace period. During this time you cannot be charged a late fee if you mistakenly send your mortgage payment to the old mortgage servicer instead of the new one. In addition, the fact that your new servicer may have received your payment late cannot be reported to a credit bureau.

Respond promptly to written inquiries.

If you believe you have been improperly charged a penalty or late fee, or there are other problems with the servicing of your loan, contact your servicer in writing. Be sure to include your account number and explain why you believe your account is incorrect.

Within 20 business days of receiving your inquiry, the servicer must send you a written response acknowledging your inquiry. Within 60 business days, the servicer must either correct your account or determine it is accurate. The servicer must send you a written notice of what action it took and why.

Do not subtract any disputed amount from your mortgage payment. Many mortgage servicers will refuse to accept what they consider to be partial payments. They may return the check and charge a late fee, or declare the mortgage is in default and start foreclosure proceedings.

Helping Clients Understand Negative Amortization

Negative amortization means the increase of a debt. With interest-only loans that include pick-a-payment features, it is easy for unsuspecting homeowners to slide into a negative amortization situation. The minimum payment option does not cover the full interest -- and none of the principal balance. The remaining interest is charged to the principal, increasing the loan amount. Simply put, when a homeowner makes the minimum payment on this type of loan, they actually owe the bank more money each time they make a payment. For example, a homeowner has a \$542,657.81 interest-only loan at an interest rate of 8.522% with four payment options:

- \$4,014.19 (covers principal and interest);
- \$5,785.71 (will repay loan in 15 years);
- \$3,853.77 (covers interest only), or
- \$1,480.83 (minimum payment; will not cover monthly principal and interest).

By paying the minimum payment, the balance would increase by \$2,372.94 each month the homeowner decides to pay the minimum. Interest can only be deferred for a set period of time. After that period, payments increase significantly and interest-only is no longer an option.

Beware of promises to refinance within a certain period to avoid a mortgage payment increase. Refinancing can be an option based on future economic factors of market stability and growth. But, your home may or may not have the option to sell for the balance owed.

Basic Components of an Option ARM

Start Rate: The start rate is generally a "teaser" rate: a very low interest rate, generally good for one to three months. It is also the rate on which your minimum monthly payment is figured.

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News (continued from front page)

1. A history of on-time mortgage payments before the borrower's teaser rates expired and loans reset;
2. Interest rates must have or will reset between June 2005 and December 2009;
3. Three percent cash or equity in the home;
4. A sustained history of employment; and
5. Sufficient income to make the mortgage payment.

"*FHASecure* is designed for families who are good borrowers but were steered into high-cost loans with teaser rates," said Assistant Secretary for Housing-FHA Commissioner Brian Montgomery. "These homeowners, many of whom are minorities, need a safe, affordable mortgage product that will help build wealth. All FHA borrowers pay mortgage insurance premiums to offset claims to the FHA insurance fund and ultimately prevent risk to the taxpayer."

FHASecure will also bring much-needed liquidity to the mortgage market. FHA anticipates more lenders will offer FHA-insured loans, pool them, and securitize them with the Government National Mortgage Association (Ginnie Mae), which has the full faith and credit of the U.S. government. This guarantee makes Ginnie Mae's mortgage-backed securities the safest on the market and helps to channel greater capital into the housing market, benefiting U.S. homeowners.

For more information about *FHASecure* and other FHA products, please call 1-800-CALL-FHA or visit www.fha.gov or www.hud.gov. For a list of your local homeownership center or a HUD-approved housing counseling center, go to www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm

In the Know New Information, Resources and Programs for NID-HCA and Our Clients

Mortgage Fraud

Mortgage fraud involves deceptive and fraudulent sales tactics in mortgage financing. Such tactics can result in higher interest rates and higher mortgage payments. Mortgage fraud can be difficult to detect. Below are ten questions to help assess if you have been a victim of mortgage fraud.

1. Were you encouraged to include false information on your loan application?
2. Were you asked to leave signature lines or any other important line-item of any form blank? Did the lender or broker alter any information you entered on your loan application?
3. Check your loan file. Are any of the following disclosures missing?
 - Good Faith Estimate
 - Special Information Booklet
 - Truth in Lending
 - HUD-1 Settlement Statement
4. Have you refinanced your loan several times and in each instance increased either your monthly payment and/or the amount you owe on your home?
5. Do your documents reveal that your interest rate calculation will change to require you to pay "daily interest" in instances when your payments are late?
6. Is your loan amount higher than the value of the home?
7. Did you incur any unexpected costs at settlement that were not explained to you prior to the settlement?
8. After settlement, were you surprised to find that the monthly payments on your mortgage loan were higher than you anticipated based on the initial disclosures?
9. If you have a balloon loan (one in which after a series of low payments the entire loan balance is due in a large lump sum), will you need to obtain another loan to finance that lump-sum amount?
10. Were you required to buy credit insurance, insurance that will repay the debt if you die or become disabled?

How to Comparison Shop for a Mortgage

With the current state of the mortgage market, borrowers must educate themselves before obtaining a mortgage loan. A big part of education is knowing what questions to ask. The four factors that affect your mortgage payment are the size of your downpayment, the amount of your mortgage, your interest rate, and the repayment term of the loan. A change in any of these factors will influence how much house you can afford. Below are Fixed-Rate and Adjustable Rate Mortgage Comparison Charts to help you compare mortgages.

FIXED-RATE MORTGAGE COMPARISON			ADJUSTABLE-RATE MORTGAGE COMPARISON		
	Lender 1	Lender 2		Lender 1	Lender 2
Company name/phone # Loan officer name			Financial index and margin		
Mortgage type			Initial interest rate		
Interest rate and points			Adjustment interval		
Interest rate lock-ins: Upon application? At approval? Lock-in-costs? Effective how long?			Rate caps		
Minimum downpayment			Payment caps		
Prepayment of principal: Is there a penalty? Duration of penalty? Extra principal payments allowed?			Conversion to Fixed-Rate Loan: How can loan convert? How is the new rate determined? Are there any conditions under which a conversion option will not be offered to me? Is there a conversion fee?		
Loan processing time How many days estimated from: Application to approval? Approval to closing?					
Closing costs					

Beware of Negative Amortization (continued from page 3)

Minimum Option Payment: This is the payment that is typically fixed for at least one to five years. It is less than a full interest payment. On a \$200,000 loan, at a start rate of 3.95%, the minimum option payment would be \$949.07 per month.

Interest-Only Option Payment: As it implies, the payment is "interest only," meaning it pays only the interest due, no principal. At 6% interest on a \$200,000 loan, this payment would be \$1,000 per month. The interest rate adjusts monthly.

Fully-Indexed Option Payment: Adding the index rate to the margin equals the fully-indexed interest rate. At 6% fully-indexed on a \$200,000 loan, the payment would be \$1,199 per month. The index rate adjusts monthly.

Index Rate: The interest rate on an ARM is linked to one of several indexes. The index rate is based on a variety of averaged returns and is conveniently published monthly. The four basic indexes are:

- Monthly Treasury Average
- 11th District Cost of Funds Index (COFI)
- London Interbank Offered Rate (LIBOR)
- Cost of Savings Index (COSI)

Margin: Think of the margin as the profit the lender will make on the loan. The margin is added to the index rate to determine the interest rate of the loan. The margin is fixed for the life of the loan.

Payment Cap: A payment cap limits the amount the monthly minimum payment can increase from year to year.

Lifetime Cap: A lifetime cap sets the maximum interest rate that you can be charged over the life of the loan.

Lifetime Floor Rate: A floor guarantees that your interest rate will never fall below the margin.

Negative Amortization Cap: If you make the minimum payment every month, the difference between the full interest payment and the payment you made will be added to your loan balance. A negative amortization cap prevents the loan balance from rising to more than 110% to 125% of your original principal balance.

Recasting: Many Option ARMs require recalculation or re-amortization every five years. Before the 61st payment, unpaid interest is added to the loan and recalculated. If you have paid large sums toward principal, recasting will lower your future loan payments.