The Consumer's Guide to Predatory Lending

or

What You Don't Know Could Ruin You Financially

Courtesy of:
Home Ownership Matters
Mildred Wilkins, President
7399 Shadeland Ave #201
Indianapolis, IN 46250
Office (317)549-3918
Fax (317)549-3924

"Consumer Advocacy in Action"

2002© Copyright HOM, LLC

Table of Contents

1. Introduction..2
2. Mission Statement...3
3. Open Appeal to Professionals..4
4. Are We Being Accountable?...5
5. Who Gets Hurt By Predatory Lending?..............................6
6. Understanding Subprime and Predatory Lending............7
7. Predatory Lending Fallout...9
8. Buyer Beware (or How to Protect Yourself)....................10
9. Commit to Protecting Yourself.......................................11
10. Victims of Predatory Lending, 3 Case Studies...............13
11. Mortgage Fraud Schemes..22
12. Mortgage Fraud Involving Investments.........................23
13. A Victim of Predatory Lending, Fraud Case Study..........24
14. Suggestions to Buyers of Real Property.......................27
15. Averages of Closing Expenses.......................................28
16. Mortgage Real Estate Terms...30
17. Before Signing on the Dotted Line...............................33
18. Meet the Author, Mildred Wilkins................................34

*The contents of this booklet may not be reproduced, by any means without prior written permission by the author.

Introduction

There has been widespread celebration during the past decade as we have watched the number of first-time and minority homebuyers increase. Lenders, as well as almost every other category of service providers related to housing, have been pleased to see the "American Dream" become a reality for so many people who could not overcome the hurdles only a short while ago. Indiana has been among the leaders in the nation in new home starts, while the number of minority buyers has climbed dramatically. Those reports are positive and compelling. They are cause for celebration.

Unfortunately, we have not focused on several important questions. Is the homebuyer ready to handle ownership? Are the loan terms reasonable for their income and situation? What are the long-term costs, implications, and possible pit-falls of this purchase? Will the homebuyer be better off or worse in three to five years? Often homebuyers don't have enough knowledge, in this area, to answer these questions and the real estate professionals associated with the transaction have a vested interest in not raising the discussion.

2002 © Copyright HOM, LLC

Mission Statement

Home Ownership Matters is committed to

Educate: by providing consumers with basic know-ledge concerning their rights and the current laws governing lending and refinancing.

Empower: by providing resources which consumers can use to gain knowledge first to avoid predatory lending practices or direction for intervention, if they believe they have been a victim of predatory lending.

Encourage: by raising awareness among consumers that it is the CONSUMER who ultimately has the power to change our current situation; and by imploring consumers to share knowledge, to help others avoid financial difficult, and aid those already in need.

Open Appeal to Real Estate, Lending and Housing Professionals

I have prepared this guide to help both consumers and professionals better understand the causes and consequences of predatory lending. I hope by sharing a number of case studies that we can all see how people are lured into predatory lending situations and the negative impact on their lives as a result.

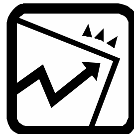
I believe the solution to slowing the spread of such practices is primarily two-fold: education and revised legislation with subsequent enforcement. My personal challenge is to implement grassroots education, group by group. I leave to others the legal and enforcement piece. If you are in any way associated with the housing profession: as a REALTOR®, broker, lender, counselor, funder, appraiser, regulator, or others YOU NEED TO GET INVOLVED! To do nothing will insure that the wildfire of predatory lending continues to spread. We are at the forefront of a housing crisis, which has deep economic implications for our state. I cannot tell you what your role is: ONLY that you have one. Will you be part of the solution or will you wait until the crisis is full blown and wonder why "someone" didn't do something? All of us are being impacted directly or through our children who are first time buyers, our parents who are elderly and retired, our co-workers, and others. It is "OUR" problem. We should work together for "OUR" sakes.

Are We Being Accountable?

Ironically, the factors, which led to such large numbers of buyers and so much pride, have also contributed to Indiana being number one in foreclosures nationally during 2001. Indications are that the state will retain the dubious title during 2002. Simultaneously, predatory lending has seen a dramatic increase within the state.

The two factors are closely related and because predatory lending has foreclosure as one of its "side effects," one should not be at all surprised that both rates are high. When David Berson, economic forecaster for Fannie Mae, visited the state early in 2002, he stated that he was baffled by the alarming rise in foreclosures in Indiana, when the economy was improving. Positive reports and national averages are no consolation to the Indianapolis families who have lost their homes, their hopes, and their dream of a better life.

I am not implying that most professionals are guilty of any wrongdoing. Quite the contrary, there is an implicit fiduciary responsibility under which some professionals are required and expected to operate. There is "implied" accountability for all professionals to look out for the best interest of the consumers they serve.

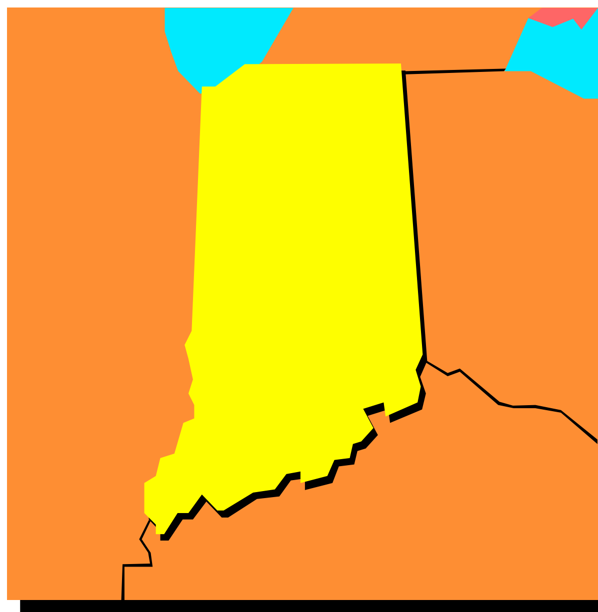


2002 © Copyright HOM, LLC

Who Gets Hurt By Predatory Lending?

Even if you are blessed not to be in one of the "targeted" categories, all of us, as residents of this State, are being directly impacted by the results of predatory lending. Predatory lending practices are specific actions taken against specific individuals in their purchase or refinancing of a home. Even if you are savvy enough to avoid high interest rates and exorbitant closing fees you are impacted by declining property values throughout many subdivisions and cities.

The many methods and practices of predatory lending are now so widespread that they touch ALL RACES, ALL NEIGHBORHOODS, ALL AGES, and ALL PRICE RANGES. None of us, no matter where we live, no matter that you haven't taken out a mortgage in 22 years, NONE OF US, can escape the impact on our cities and state.



2002 © Copyright HOM, LLC

Understanding Subprime and Predatory Lending

There has been an explosion of predatory lending cases during the past five to seven years. The result has been many people losing their homes to foreclosure, with mortgage payments as high as 60-70% of their monthly income. (Standard banking guidelines indicate a housing payment of 25% of monthly income is reasonable and comfortable for most people.)

Predatory lending is a serious problem costing targeted communities an estimated $9.1 billion annually, according to one source. The Federal Reserve Bank of Saint Louis published an in depth story on predatory lending in a special issue of BRIDGES, summer 2001. According to this story, conventional loans to low-income buyers increased 75% between 1993 and 1998. Minority buyers, in particular, increased at a pronounced rate, with Blacks seeing 95% growth, and Hispanics 78% growth.

The following is excerpted from a speech made by Federal Reserve Governor Edward M. Gramlich in Philadelphia last December 6, at a conference on predatory lending.

Among the complex issues that surround predatory lending is the overgeneralization that sometimes occurs when the terms "subprime lending" and "predatory lending" are equated. It is important that the distinction between the generally beneficial subprime market and destructive predatory lending be kept clear.

One of the welcome developments in recent years is the expansion of the home mortgage market to all socioeconomic classes. Studies of data submitted under the Home Mortgage Disclosure Act (HMDA) have shown that lower-income and minority consumers, who have traditionally had difficulty in getting mortgage credit, have been granted loans at record levels. Specifically, conventional home-purchase mortgage lending to low-income borrowers increased nearly 75 percent between 1993 and 1998, compared with a 52 percent rise for upper-income borrowers. Also during this time, conventional mortgages to African-Americans increased 95 percent and to Hispanics, 78 percent, compared with a 40 percent increase in all conventional borrowing.

Much of this increased lending can be attributed to the development of the subprime mortgage market. This

2002 © Copyright HOM, LLC

rapid growth has given access to credit to consumers who have difficulty in meeting the underwriting criteria of "prime" lenders because of blemished credit histories or other aspects of their profile.

But along with this positive development have come increasing reports of abusive lending practices, targeted particularly at female, elderly, and minority borrowers. These practices, many of which can result in consumers' losing much of their equity in their home or even the home itself, are commonly referred to as "predatory lending."

The term "predatory lending" is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. But typically predatory lending involves at least one, and perhaps all three of the following elements:

---Making unaffordable loans based n the assets of the borrower rather than on the borrower's ability to repay and obligation;

---Inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping"); and

---Engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

Some of these practices are clearly illegal and can be combated with legal enforcement measures. But some are more subtle, involving misuse of practices that can improve credit market efficiency most of the time. For example, the freedom for loan rates to rise above former usury low ceilings is mostly desirable, in matching relatively risky borrowers with approximate lenders. But sometimes, the payments implicit in very high interest rates can spell financial ruin for borrowers. Most of the time, balloon payments make it possible for young homeowners to buy their first house and match payments with their rising income stream. But sometimes, balloon payments can ruin borrowers who do not have a rising income stream and are unduly influenced by the up-front money. Most of the time, the ability to refinance mortgages permits borrowers to take advantage of lower mortgage rates. But sometimes, easy refinancing mean high loan fees and unnecessary credit costs.

Often mortgage credit insurance is desirable, but sometimes the insurance is unnecessary, and sometimes borrowers pay hefty premiums up-front and as often their loans are flipped. Generally, advertising enhances information, but sometimes it is deceptive. Most of the time disclosure of mortgage terms is desirable, but sometimes key points are hidden in the fine print.

Apart from outright fraud, predatory lending often entails the abuse of complex mortgage provisions that are generally desirable and advantageous to a borrower, but only when they are fully understood by the borrower.

*Speech from "Bridges," summer 2001. Federal Reserve Bank of St. Louis.

Predatory Lending Fallout

1. Property values decline, as more foreclosed properties become part of the listed homes for sale.

2. Bank costs increase, which must be passed on to the consumer, as they suffer losses from foreclosure and short sale.

3. Potential public health issues arise, as more properties remain vacant for extended periods. (The incidence of mold locally has increased, in part because of foreclosed homes without power frequently have standing water in basements and crawl spaces.)

4. The general cost of lending increases, similarly insurance companies that insure mortgages must recoup their losses.

5. The tax base is reduced, as property values decline.

6. The perception of less valuable neighborhoods impacts their stability.

*Longer-term implications include the tightening of loan requirements, which will force a decline in homeownership rates, even for qualified buyers.

2002 © Copyright HOM, LLC

BUYER BEWARE

or How to Protect Yourself

Consumer awareness and understanding must be raised to reduce the number of people who purchase or refinance with loan terms that are potentially detrimental to their overall financial well being. Consumers must decide to assume personal responsibility for the decisions that cause them to be in trouble. The simple truth is this: Unless someone forged your name you AGREED to the terms that are stated in the loan documents. You must commit to yourself to avoid cooperating with someone who might possibly create a financial hardship for you. They will have earned and collected their fee or commission, or otherwise been paid. You are left to figure out how to get out of the quagmire you unwittingly signed yourself into.

Many predatory lending practices that are, in fact, within current legal boundaries are still predatory in nature. The current Indiana Loan Broker Act, which governs the services provided by a mortgage broker, is legal, but is weak enough that it allows many practices that are questionable. In addition some mortgage brokers are <u>completely</u> <u>exempt</u> from the law that is currently in place.

While new legislation is needed to correct much of what is wrong with the financing and refinancing of homes, as a consumer you cannot afford to WAIT until such legislation is in effect to protect yourself. By studying this consumer guide carefully, you can be knowledgeable enough to avoid many of the predatory practices being faced by consumers everyday in our communities.

2002 © Copyright HOM, LLC

COMMIT TO PROTECTING YOURSELF

Read, Study, and Listen

One step in protecting yourself is to commit to some core principles related to handling your finances.

COMMIT/PROMISE TO YOURSELF

1. That you will NEVER again sign documents which you do not completely understand.
2. That you will NEVER again sign documents which have blank statements.
3. That you will always remember that contracts are legally binding.
4. That you will remember, if it sounds too good to be true, it is.
5. That you will realistically decide what you can HONESTLY afford for housing and STICK TO IT.
6. That you will SUPPORT both legislation and education to combat this growing problem.
7. That you will assertively stand your ground concerning your financial health.
8. That you will TAKE YOUR TIME and not rush into financial obligations.
9. That you will have someone you TRUST to review the loan or closing papers if you are not absolutely clear on all the terms and conditions.

2002 © Copyright HOM, LLC

10. That you will NEVER sign a contract to build without using an agent or attorney representing you.
11. That you will NOT refinance without having an attorney or other professional representing you to review the closing documents BEFORE you sign.
12. That you will be aware that all professionals are NOT committed to treating you fairly. Predatory lending is done by professionals.

YOU, AND ONLY YOU, CAN REALLY PROTECT YOURSELF!

2002 © Copyright HOM, LLC

A Victim of Predatory Lending
Case Study #1

John and Marcia, Buyers of New Construction

John and Marcia are in their early 30's. They got married eight months ago and moved into her apartment since it was larger. They have three kids between them, from previous marriages, so they need space. They've decided to buy their first home. Several people they know have built and that's what they really want to do.

They work at the same company and their total household income is $42,000. They have one car payment, lots of debt, slightly damaged credit and $500 saved. Their current rent is $600 and they pay it on time, most of the time.

They see signs advertising a new home with only $500 down, with payments starting at $605 for a four bedroom, two stories with 2100 square feet. It sounds like the home they have been thinking about. The builder's representative in the model assures them he can get them financed through the bank the builder uses. He does not discuss up front costs, rates, or costs of options, or any of the other ten things they really need to know BEFORE they sign a contract.

They pick a floor plan they like at a base cost of $119,000 and write a check as a deposit. When they get the contract back signed by the builder they do not understand why the price is $4,750 more than the base cost ($2,000 extra

2002 © Copyright HOM, LLC

for the lot they chose and $2, 750 extra for the elevation they chose). The builder's representative did not explain that every choice had a cost attached. They still have not made color selections, cabinet types, etc. When they finish that process two weeks later the price of the house is $139,950. They got carried away and the representative kept saying, "We'll work it out." (The builder's representative is the "SELLER'S AGENT," not theirs.)

Now they feel trapped. They have committed and things are out of control. All the family and half of the people at work know they are building. They are discouraged after talking to several people who tell them they are in over their heads, BUT they won't back down.

Numerous things go wrong during the building process, and they borrow $3,000 from a family member to pay the "extra" they are told they must have three days before closing. They do NOT have an inspection. They close six days after they were supposed to, but they are now more stressed about the new furniture they need, the lawnmower, and trying to get curtains for 24 windows.

The loan papers show:

1. Final purchase price of $141,500.

2. Variable rate loan starting at payments of $752.79 with the rate to be increased at six months intervals with a 6% cap at the end of three years.

2002 © Copyright HOM, LLC

3. Taxes were escrowed on ONLY the lot at $24.00 per month. (Taxes on this house will later be assessed at roughly $165.00 per month.)

4. Included in the mortgage are all the seller and buyer closing costs; including $600 for the seller's title work.

The FACTS are:

1. They are contending with several problems that would have been discovered prior to closing IF they had hired an independent inspector instead of relying on the walk-through with the builder, as their "inspection".

2. The tax bill for $3,900 (representing two years) arrived about the same time they received their fourth mortgage increase. Their mortgage payment after 24 months is $1350 and will increase twice more before it reaches the cap.

3. They cannot afford this house.

NOTE: If they had calculated their housing payment at ¼ of total annual income and stuck to it, their house payment, fixed rates should have been roughly $950 a month.

They are very likely to become one of the roughly 20% of new loans in default within 3 years of closing. (Default being determined at 30-60 days late.)

*This purchase involved predatory lending, but there does not appear to be anything illegal about this transaction.

A Victim of Predatory Lending:
Case Study #2

Mrs. Smith, a senior citizen, needs home repairs

Mrs. Connie Smith is 74 years old. She lives in a quiet neighborhood of modest homes ranging in value between $60 and $70,000. She has lived in the home for 34 years and paid the mortgage off ten years ago. Mrs. Smith is widowed and did not handle business "stuff" until her husband died eight years ago. She has a small Social Security check and a retired teacher's pension. Connie's total income is $1,400 per month, but she manages pretty well.

Mrs. Smith's home needs the roof replaced (it leaks in the bathroom and bedroom) and the windows really need to be replaced, too. The nice man who called offering to do home repairs said it would only cost $500 per month. She was leery, but said she needed the leak fixed and she didn't think it was a good idea to go through another winter with high utility bills even with the plastic over the windows.

She didn't really understand the papers that they brought to the house for her to sign, but they had already started tearing the roof off, and she didn't know what else to do.

Mrs. Smith's loan papers show:

1. Total loan for the roof and windows was for $24,000 including $8,000 in up front fees to the mortgage broker.

2002 © Copyright HOM, LLC

2. The loan was a mortgage against the house.

3. The loan was a variable rate starting at 7 ½ %, but could go as high as 14 ½ % over five years.

4. There would be a $5,000 prepayment penalty if she repaid the loan early.

5. Taxes and insurance were NOT included in her payments.

   Mrs. Smith had no savings and due to increased co-payments for medical care, is now struggling to make payments.

Notes: Work should have cost roughly $10,000 for both complete roof replacement and new vinyl windows. Up front costs on the loan should have been approximately $1,500. Monthly payments of approximately $200 a month would have been more in line with a fixed rate.

2002 © Copyright HOM, LLC

A Victim of Predatory Lending
Case Study #3

Latoya Jones, single mom, short on cash

Latoya has worked at the same job for 8 years and is happy her income has reached $32,000. She's a single mom with two kids and really wants to get them into a nice home. She's managing okay, but every time she has $1,500 in saving the car breaks down or there is a medical bill that takes most of it. She pays $600 a month rent and feels one of these programs she keeps hearing about should work for her.

Most of Latoya's close friends have built homes, but they seem to be struggling and she doesn't want to do that. She knows she can't afford much more than $600 and she doesn't want to be stressed.

One of the programs many people have used to build is called LoanHelp, and she asked her REALTOR© about using that on the $58,000 existing home she saw around the corner from her mom. The REALTOR© is an enthusiastic supporter of LoanHelp. (The LoanHelp program is set up so the seller pays 4% of the sales price toward down payment, etc for the buyer.) Many people, both consumers and REALTORS© think it's wonderful because a buyer can get into a house with almost NO MONEY OF THEIR OWN. The catch, and there is always a catch, is that the seller still wants fair market value for their home. To accomplish this usually the offer is written ABOVE list price and then an appraisal to support that value is secured by the lender.

The downside here is two-fold; the appraisal has to be

s–t–r–e–t–c–h–e–d to cover the offer price AND the buyer, cash poor to begin with, has no equity NOR any money to handle expenses.

The loan papers show:

1. Home was purchased at $60,320, 4% above the list price of $58,000.

2. The loan is for $63,527 (to cover broker's fee, closing costs, etc. which are legally being financed, as well).

3. Mortgage payment is $621.00, including taxes and insurance.

4. Latoya paid $500.00 in earnest money and brought $273.00 to closing. Her total investment in this house $773.00.

5. Interest rate is 1.5 percentage points higher than standard rate, at a conventional lender, on the date this loan closed, but it is FIXED.

6. $2,320 was paid under the LoanHelp program from loan proceeds, on Latoya's behalf.

The FACTS are:

1. The house is really worth about $57,000 so her loan is more than $6,527.00 too high.

2002 © Copyright HOM, LLC

2. Using a mortgage broker she paid $3000 in broker fees and excessive closing costs.

3. Broker will receive another $500.00 from the lender for making this loan.

4. Latoya cannot afford this house.

NOTES: The loan is predatory because fees were excessive and not in her best interest. It was NOT illegal.

Latoya just got engaged and wants to sell her home and repurchase with her husband. She would need to sell this property at $69,500 to cover REALTOR© fees, taxes, and related expenses OR bring $12,500 to the closing if she got an offer at $57,000, the actual value of the home.

Sometimes a predatory loan causes you to be STUCK where you're not able to make other financial moves you desire to make.

Going in without a sufficient down payment starts you with no equity. In this example, it would take several years to have the loan paid down to actual resale value of the property.

Many times consumers, with low initial investment, will let the house go (be FORECLOSED) because they feel trapped.

2002 © Copyright HOM, LLC

Mortgage Fraud Schemes

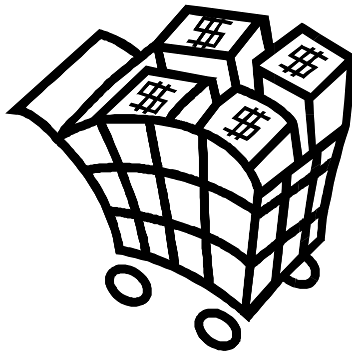
- ❖ Goal of schemes: To obtain a loan on a property in excess of true value and share excess money with players.

- ❖ Involves one or more licensed professionals (i.e. real estate appraisers or closing agents).

- ❖ Loan money is disbursed among players and property goes into foreclosure.

- ❖ Property is left to deteriorate and it is unoccupied while the lending institution tries to sell it in foreclosure proceedings.

- ❖ Mortgage schemes are antagonistic to community revitalization efforts in Indiana.



* Information courtesy of The US Attorney for the Southern District of Indiana

Mortgage Fraud
Involving
Investment Property

Mortgage fraud involves the deliberate intention to get a mortgage in excess of the value of the property and pull out "supposed" equity. Mortgage fraud is a type of predatory lending. The occurrence of mortgage fraud is at epidemic proportions in the state of Indiana and is a major contributing factor leading to foreclosure.

In Indianapolis, on June 19, 2002 indictments for mortgage fraud were handed down against seven individuals alleging involvement in a mortgage fraud scam. Included in the indictments was one individual identified as a "straw buyer." A "straw buyer" is someone who simply signs the loan papers to make it official and receives a check at closing. Usually straw buyers are brought in as investors, but no work will be done on the property that remains vacant.

The Federal Bureau of Investigations is currently investigating over 600 individual loan transactions in Marion County for loan fraud. More files are being added weekly to that total.

Consumers need to understand:

Mortgage fraud is:

1. Illegal
2. Can lead to jail time
3. Can lead to foreclosure and ruining your credit

2002 © Copyright HOM, LLC

4. Contracts are legally binding
5. When you sign, you are held accountable
6. Quick, easy money is never "good" money

Study Predatory Lending Case #4
so you don't become a victim.

A Victim of Predatory Lending
Case Study #4

Investor as a "Straw Buyer," Participant in Mortgage Fraud

Raymond Taylor is in his mid-fifties, married for 30 years and has raised his children in the modest home he's lived in for 22 years. He's gotten a couple of speeding tickets, but otherwise he's a clean, law abiding citizen. Mr. Taylor has worked at the plant for 27 years, has good credit, and is considering retirement soon. He's looking at ways to supplement his retirement check and works the evening shift at the plant. From time to time, Raymond turns to Carleton Sheets, who is known nationally for teaching about getting rich quick and painlessly. His plans give ways to become an investor, with no out of pocket funds. One could buy investment property and move to the Caribbean next year.

Then someone at the plant approaches him about becoming an investor to make some extra money. Raymond is drawn to the idea and attends a meeting where he is told the company will do all the legwork. They proposed they would

locate properties that he can then buy and sell (with a little fix-up), and make a nice profit.

He trusts the man who brought him this opportunity and decides to become an investor. One day he gets the call that a property has been found, and he goes to closing, signs the papers, and gets a check. Mr. Taylor has just become a "straw buyer," a player in loan fraud.

Raymond purchased four properties like this, signed all the loan documents, and received a check at each closing.

The loan papers show:

1. Each property is supposed to be his primary residence.

2. Exceedingly high closing costs, yield spread premiums, mortgage broker fees, etc.

3. That Raymond made a down payment of approximately 20% and he signed stating the down payment was from his own funds.

4. The HUD (Housing and Urban Development) form shows a one year homeowner's insurance policy was paid for, as required by the lender.

5. In four places, Raymond signed agreeing all statements within the documents are true.

6. Raymond did not use the professional services of a REALTOR® or retain an attorney to advise him in this matter.

The FACTS are:

1. Raymond did not buy an insurance policy.
2. He does not live in these houses.
3. He did not make a down payment.
4. Appraisal is 60-70% higher than actual value of the property in that neighborhood.
5. Raymond received a check back for $10,000 at each of the closings. The buyer DOES NOT get a check at regular closings.

NOTES: Raymond is currently under investigation by the FBI, IRS, State Securities Division, and the company insuring the mortgage for fraud.

As a "straw buyer" who received funds from the transaction, Raymond is likely to receive jail time.

His credit is ruined since he cannot continue to make payments on the four vacant, boarded houses. Mr. Taylor's marriage is in jeopardy and his health is suffering because of stress.

He will not be going to the Caribbean, but he may be going "away."

2002 © Copyright HOM, LLC

Suggestions to Buyers of Real Property

1. If both the buyer and seller are not present together at the closing, ask why.
2. Generally, the settlement statement should contain both the buyer's and seller's signature on the same document.
3. Be suspicious if you are told that everyone lies on documents to purchase property.
4. If the settlement statement shows a down payment and you did not make one, do not sign the document.
5. Never sign a loan application or other document if it is blank or contains false information.
6. Be suspicious of anyone who offers you an "investment opportunity" to invest in property that involves no down payment and receipt of money from a loan closing.
7. Be suspicious if someone offers you money to purchase property or promises you money at closing.
8. Be suspicious if someone asks you to purchase property without seeing it.
9. Be suspicious if someone tells you that you can buy property and not worry about making the mortgage payments or maintaining the property.
10. Be suspicious if someone tries to rush you into buying several properties at the same time.
11. IF IT SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS!

*By the Us Attorney's Office, Southern District of Indiana

Statewide Averages of Closing Expenses

The fees listed represent "normal and customary" fees for central Indiana, and can be used as estimates to help you understand reasonable costs. These guidelines may not be your actual cost, which may vary and will be provided to you by your agent, title company, and/or mortgage company.

Appraisal fee--$325, for research and assessment of property market value

Courier/Messenger fees--$35.00, to transport time sensitive documents

Credit Report fee--$50.00, detailed history from credit service co.

Discount points-varies, usu. 0-2 points, lender costs for mortgage loan

Document preparation fee--$150, closing paperwork costs to lender

Flood certification fee--$15, to determine "flood hazard area"

Hazard Insurance Escrow—2-3 times monthly insurance cost

Home inspection--$295-500, buyer's property inspection prior to close

Lead based paint inspection—varies, cost to inspector

Lender inspection fee--$50-75 per trip, if lender requires separate inspection

Loan origination fee—1% of mortgage amount MAX! NOT always charged

MIP-Mortgage Insurance Premium (FHA Only)—1.5% and rolled into loan

Mold inspection-varies

Pest inspection--$95-125, termite inspection, plus treatment prior to closing

PMI-Private Mortgage Insurance-usu. .35-1% of loan, protects mortgage co.

Prepaid interest—loan amount times annual interest rate, divided by 365, times 0-30 days, depending on date of closing

Prep. of Deed and Affidavit--$50-65,usu. seller's cost, transfer ownership

Processing fee--$150, loan application review and processing

2002 © Copyright HOM, LLC

Professional service fee—percentage of gross sales price, REALTOR® fee
Radon inspection--$50-100 typically, but could vary, test to verify level acceptable by Board of Health

Real Estate Tax Escrow—3-4 months of property taxes

Recording fee--$45-55, documents to State Recorder's Office

Survey fees--$125 for surveyor location report/Staked survey usu. $300-500

Tax service fee--$65-85, management of escrow account

Title Search fee/Title Exam. fee/Title commitment-varies, usually seller pays

Buyer's Title Policy (ALTA92/ALTA 98 buyers)-$120 plus 10% times amount of seller's policy

Settlement or Closing fee--$175-250, document prep. by title or closing co.

Underwriting fee--$295-300, underwriting review and approval

*Not all fees above may be charged, are negotiable and vary throughout the state.

2002 © Copyright HOM, LLC

Mortgage Real Estate Terms

1. Predatory lending–lending practices in which the consumer ends up with a loan that not in their best interest. Basically, a loan the consumer cannot afford, on terms that puts them at risk of default is predatory.

2. Predatory loan practices include: inflated appraisals, fraudulent underwriting, excessive amounts charged for legitimate fees (such as closing costs or appraisal fees), excessive and repeated refinancing, prepayment penalties, yield spread premiums, credit life insurance, property flipping, balloon payments, and equity stripping.

3. Mortgage–a mortgage loan is the pledge of your home as the lender's security that you will repay your debt. In other words, if you don't repay your mortgage, the lender has the right to take over the house. The lender agrees to hold a lien on the title to your property (or, in some states, to hold the title to your property) until you have paid back your loan plus interest.

4. LTV (Loan-to-Value ratio)–This ratio compares the mortgage amount to the appraised value or the sales price of the property, whichever is less. This ratio also shows how much equity you have in the property. For example, if you are buying a house worth $100,000, have a 5 percent down payment, and are getting a mortgage for $95,000, the LTV on your loan will be 95 percent. Lenders generally use this ratio to determine whether you will need mortgage insurance. You will hear this term more often when you are refinancing a loan.

5. Closing costs–Closing, or the settlement process, is when the "title" (ownership) of a property is legally transferred from the seller to the buyer. Closing costs are expenses paid at the time you settle

on your loan. Such costs include title insurance, recording fees, and escrow fees. The Real Estate Settlement Procedures Act (RESPA), a federal law, requires lenders to provide you with a "good faith estimate" of the expenses you can expect to pay at closing. RESPA also requires the lender to provide you with a special information booklet that explains how the settlement process works and an easy-to-follow form, so you can understand the entire transaction.

6. Adjustable-rate mortgage–An adjustable-rate mortgage, or ARM, has an interest rate and monthly payment that adjusts at regular intervals (usually once or twice a year) based on changes in a specific financial index. Initial interest rates on ARM loans usually are lower than fixed-rate mortgages. As interest rates rise, however, the required monthly payments on ARM loans also increase. Of course, if interest rates go down, your payment will decrease. Some ARMs offer you the chance to converts to a fixed-rate loan for a fee within a certain period of time.

7. Default–The failure to make a mortgage payment on a timely basis or to comply with other requirements of a mortgage.

8. Notice of Default–A formal written notice to a borrower that a default has occurred and that legal action may be taken.

9. Prepayment penalty–A fee that may be charged to a borrower who pays off a loan before it's due.

10. Underwriting–The process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's creditworthiness and the quality of the property itself.

11. Acceleration clause–A provision in a mortgage that gives the lender

2002 © Copyright HOM, LLC

right to demand payment of the entire outstanding balance if a monthly payment it missed.

12. Cash reserve–A requirement of some lenders that buyers have sufficient cash remaining after closing equivalent to two month's mortgage payment.

13. Closing–A meeting at which the sale of a property is finalized by delivery of a deed from the seller to the buyer and by the buyer's signing the mortgage documents and paying closing costs. Also called "settlement."

14. Due-on-sale clause–A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

15. Equal Credit Opportunity Act–A federal law that prohibits lenders from discriminating on the basis of the borrower's race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

16. Foreclosure–The legal process by which a mortgaged property may be sold when a mortgage is in default.

*Definitions in part are reprinted with permission of Fannie Mae.

Before Signing on the Dotted Line:

A Checklist for Consumers

A committee that studied predatory lending practices in the Evansville area advises consumers to meet with an independent loan counselor or at least question their lender if the can check more than three of the following items.

1. **Is the deal you've been offered too good to be true?**
   - o Marketer guarantees the loan will be approved despite your credit problems.
   - o Marketer offers to refinance mortgage for much more value than the recent purchase price.
   - o Marketer insists you can borrow more than 100 percent of the value of your home.
   - o Marketer uses statements such as "Trust me-this is legal."
   - o Less than one year has passed since you purchased or refinanced.
2. **Are processing tactics questionable?**
   - o A 1-900 number is used to start the process, resulting in phone charges that you must pay.
   - o Telemarketer asks you for credit card or bank account number
   - o You are required to sign a broker's agreement with large penalties for terminating the loan process.
   - o Marketer offers "to pay for anything at no expense to you."
   - o You are told that "no down payment" is not a problem for a home purchase.
   - o Marketer does not discuss the length of the loan, interest rate, type of loan (fixed, balloon, variable).
   - o Marketer does not discuss the Good Faith Estimate of closing costs at application.
   - o You are not given a copy of the Good Faith Estimate and/or Truth in Lending Statement.
3. **Are fees too high? (Check your Good Faith Estimate and Truth in Lending form.)**
   - o Origination fee is more than 1 percent of loan.
   - o Application fees are not credited to closing costs.
   - o Total cost of borrowing (closing costs) exceeds 5 percent of money borrowed.
4. **Are loan terms unreasonable for you? (Check your Truth in Lending form.)**
   - o The loan has a balloon payment. (Most of original loan is due on last payment.)
   - o The interest rate isn't fixed, but changes at a later date.
   - o The interest rate is more than 10 percent.
   - o Your loan requires a co-signer.
   - o Your total monthly debt (house, car, etc.) exceeds 50 percent of your income.
   - o The loan has payment penalties.
   - o The monthly payment does not include property taxes and insurance.
   - o You can't afford this payment.

Reproduced from "Bridges," summer 2001. The Federal Reserve Bank of St. Louis

Meet the Author

Mildred Wilkins graduated with honors from Alabama State University in Montgomery, Alabama in 1973. She received a Bachelor of Science degree in Business with a minor in English. Mildred became an Indiana resident in 1975 when she transferred here to Indiana Bell. After brief stays in two other Indiana cities, she returned to Indianapolis permanently in 1984. She received her real estate license in December 1992.

Her community involvements focus on housing related issues:

Dayspring Center, Board of Directors, Development Committee
Indiana Coalition on Housing and Homeless Issues, member
Indiana Civil Rights Commissions, Fair Housing Task Force, member
Indiana Housing Finance Authority, Planning Committee, annual Housing committee
Mortgage Fraud Task Force, member
Indy Saves, advisory council
Fannie Mae Indiana, advisory council, member
Indiana Urban League, member
Metropolitan Indianapolis Board of Realtors (MIBOR), member

She has affiliated with organizations related to housing first, to become more knowledgeable and second, to find ways to share that knowledge with others.