



OFFICE OF THRIFT SUPERVISION

What to Expect When You Apply for a Mortgage Loan

Your Credit Score Impacts Your Mortgage Rate and Other Key Areas of Your Life

Having good credit is important. Companies like: (1) banks, (2) potential employers, (3) insurance companies, and (4) companies that are considering whether to rent you a house or an apartment, all consider your credit to decide whether to do business with you. Companies like these review your "credit score" which is a measure of your financial trustworthiness. Lenders evaluate how likely it is that you will repay a loan or make payments when they are due, based on a number of factors like annual salary, the amount of loans/debt you already have, and your credit score.

Once you begin borrowing money/establishing credit, a file called a "credit report" is created by companies called "credit reporting agencies." Examples of these agencies include [Equifax](#), [Experian](#), and [TransUnion](#). Your credit report shows lenders and other companies who use credit reports, how well you have paid your bills, including whether you have paid on time, or whether there have been periods when you have paid late or missed payments. Lenders use this system to help determine whether to make you a loan and if so, how much to charge you for the loan.

In fact, your credit score may be the most important factor lenders use when they decide the interest rate you'll pay on your mortgage loan. Generally, the higher your credit score, the easier it is to receive a mortgage loan with a low interest rate. Lower interest rates usually mean smaller monthly payments and a more affordable mortgage.

Under existing federal law, you may receive a free credit report every year from Equifax, Experian, and TransUnion. You can purchase your credit score at the same time. For more information visit www.annualcreditreport.com or call toll free (877) 322-8228. For additional information on receiving your free credit report, visit the Federal Trade Commission website, www.ftc.gov.

Once you qualify for a mortgage loan, new disclosures will help you shop and compare loan offers.

New Mortgage Loan Disclosures Protect Consumers

Once you have found a home you want to purchase, shopping for a mortgage loan is probably the most important step in your home buying process. Within three days of applying for a mortgage loan, a federal law known as the Real Estate Settlement Procedures Act (RESPA) requires your lender to provide you with a Good Faith Estimate (GFE) of settlement costs that you are required to pay to get your loan. In the past, estimates provided by lenders were sometimes unreliable and you consumers large cost increases when the loan was finalized during a process known as "settlement." Because of new RESPA rules that took effect on January 1, 2010, when you shop for a mortgage loan you will receive standardized information about costs that should help prevent unexpected charges when the loan closes at settlement. At settlement, you will receive a form known as the "HUD-1" that will allow you to compare costs and loan terms listed on the estimate with final settlement costs and loan terms. These new mortgage disclosures will minimize unexpected charges at the settlement table, when it is often too late to question the charges or to walk away from the loan.

The New Good Faith Estimate (GFE)

The GFE sets out all the costs that you will be required to pay to get your mortgage loan. The costs listed on the GFE are not allowed to change very much at settlement. You should shop and compare loan offers from different lenders to find the best mortgage loan for you.

Mortgage Loan Application Process

In order to receive a GFE, you will most likely be required to provide your name, your social security number, gross monthly income, property address, estimate of the value of the property, and the amount of the mortgage loan you want. Some lenders may require you to provide more information, but a lender may not require you to submit documents at this stage to verify information you provide.

A lender cannot require you to pay a fee for an appraisal or other settlement service in order to get a GFE. **Any charge for a GFE must be limited to the cost of a credit report.**

Overview of the GFE

- The first page of the GFE provides you with **expiration dates** for the **interest rate** and the **other settlement costs**; an **overview of the loan** offered by the lender; and a **summary of the estimated settlement costs**.
- The second page of the GFE breaks down the estimated settlement costs into eleven categories. Lender charges and charges for the interest rate of the loan are listed in Section A, and all other settlement charges are listed in Section B. **Total estimated settlement charges are listed at the bottom of the page.**
- The third page of the GFE contains **important information and instructions** that will help you shop for the best loan for you.

The HUD-1 Settlement Statement

- The HUD-1 Settlement Statement (HUD-1) is a form that lists all the charges and credits to a borrower and a seller in a mortgage transaction.
- Page 2 of the HUD-1 lists the actual settlement charges so that you can compare them to the GFE to see if the charges at settlement have increased in violation of the requirements. **If the charges at settlement are more than permitted, the lender is required to reimburse you the amount of the overcharge within 30 days after settlement.**
- Page 3 of the HUD-1 gives you charts that allow you to compare the information on the settlement statement with the information provided on the GFE.

For more information on credit scores, see <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre24.shtm>

For more information on shopping for a home loan, see

<http://www.hud.gov/offices/hsg/ramh/res/Settlement-Booklet-January-6-REVISED.pdf>

Highlights of the GFE

To help you understand the GFE, familiarize yourself with the information provided below before you begin shopping for a mortgage loan.

GFE Page 1

- **Availability of Interest Rate.** The GFE lists an interest rate for the loan offered. The “important dates” section on page 1 tells you how long the interest rate is good. If the rate expires, the interest rate, some of the loan origination charges and the monthly payment listed on the GFE can change until the interest rate is locked. **If you lock your interest rate after you have received a GFE, the lender must issue you another GFE within 3 days of the interest rate lock reflecting the date the rate lock is good through.**
- **Availability of Other Settlement Charges.** The GFE also tells you how long the other settlement charges are good. The date listed must be at least 10 business days from the date the GFE was issued to you to allow you to shop for the best loan for you. If you do not let the lender know that you want the loan in the GFE within the 10 business day period, the lender is not required to honor the loan terms and settlement charges listed on the GFE.
- **Summary of Your Loan.** The summary of your loan section tells you the loan amount, loan term, the initial interest rate and the principal, interest and any mortgage insurance portion of your monthly mortgage payment. It also discloses other information such as whether the interest rate can rise; whether the loan balance can rise even if you make your payments on time; and whether the monthly amount for principal, interest, and any mortgage insurance can rise even if you make your payments on time. The summary also tells you whether the loan in the GFE allows the lender to charge you a fee if you pay the mortgage loan off early and whether the loan requires a balloon payment. A balloon payment is generally a large payment due to the lender after a stated period of time that would pay off the mortgage.
- **Escrow Account Information.** This section indicates whether an escrow account is needed for the loan. This account holds funds needed to pay property taxes, homeowner’s insurance, flood insurance if required by the lender, and other property related charges. If the lender does not require an escrow account, you must pay these items directly when due and should consider how you will make these payments.

Block	Charge	Amount
A	Your Adjusted Origination Charges (interest)	
B	Your Charges for All Other Settlement Services (interest)	
A + B	Total Estimated Settlement Charges	

GFE Page 2

- The lender’s charges to get the loan are listed at the top of page 2. If you are paying an upfront fee (known as “points”) to reduce the interest rate of the loan, this amount will be **added** to the lender’s charges. If you have a higher interest rate loan, you will receive a credit and this amount will be **subtracted** from the lender’s charges. The “adjusted origination charges” are shown at **Block A. These charges cannot change at settlement.**
- **Blocks 3-11** list the charges for all other settlement services required to get the mortgage loan. The subtotal for these charges is shown at **Block B.**
- For some of the services required to get the loan, the lender will choose the company that performs the service or may recommend a company that you may choose. Examples of such services include: the property appraisal, credit report, flood certification, any required mortgage insurance, title insurance, the lender’s title policy, and the services of a title, settlement or escrow agent to conduct your settlement. You may choose to purchase owner’s title insurance to protect your interests. These services are listed in Blocks 3-6. **If you use companies required or recommended by the lender, the total of these charges, along with government recording charges in Block 7, cannot increase by more than 10% at settlement.**
- If the lender permits you to choose a company to perform a settlement service, the lender must give you a **written list of settlement service providers** that perform the service at the time the GFE is provided. You do not have to choose a company listed by the lender to perform the service. You can choose the company you want to perform the service. **If you choose a company that was not on the lender’s list, the charge for that service may be higher than the amount listed on the GFE and the lender is not required to reimburse you for any additional charges.**
- Charges for **state and local fees on mortgages** (Block 8) **cannot change at settlement.**
- Charges for the **initial escrow deposit** (Block 9), **daily interest** (Block 10) and **homeowner’s insurance** (Block 11) **can change at settlement.**

GFE Page 3

- The top of page 3 explains which charges listed on the GFE can change at settlement. You should compare the charges listed on the GFE with the actual charges listed on the HUD-1 Settlement Statement to ensure that your lender is not charging you more than permitted. **If the charges at settlement are more than permitted, the lender is required to reimburse you the amount of the overcharge within 30 days after settlement.**
- The “trade-off” table will help you understand how your loan payments can change if you **pay more settlement charges and receive a lower interest rate** or if you **pay lower settlement charges and receive a higher interest rate.** Lenders must complete the left hand column in the table, and may choose to complete the other columns if they have the same loan product available with a higher or lower interest rate. If the second or third columns are not filled in, you should ask the lender if it has the same loan product with different interest rates.
- The “**shopping chart**” can be used to compare similar loans offered by different lenders. Fill in each column with the information shown in the “summary of your loan” section from the first page of all the GFEs you receive. Compare each loan offer and select the best loan for you.