credit report from each of the three credit reporting agencies every year by visiting www.annualcreditreport.com.)

18) **"Am I required to have Private Mortgage Insurance (PMI)? If so, when will it be removed and what do I need to do to have it removed?"**

PMI is insurance that protects the lender against a loss if the borrower defaults on the loan. It is usually required for loans where the down payment is less than twenty per cent or when the amount financed is greater than eighty per cent of the appraised valued of the home. For current loans other than FHA or VA loans, PMI may be automatically eliminated when equity becomes twenty-two per cent of the original appraised value. For more specific information, borrowers should contact their lender.

19) **"Who are you planning on using as the title agency? Are you or your company affiliated with the title company? Should I purchase owner's title insurance?"**

Many borrowers will let the lender or mortgage broker choose the title company. Borrowers have the right to use the title company of their choice even if it is a different company than recommended by the mortgage broker or lender. Using the same title company as a consumer has previously used may allow the consumer to save money. It is not illegal for a mortgage broker or lender to have a financial interest in a title company, but they need to disclose this to consumers during the loan process. It is best to ask up front so consumers can make an informed decision about which title company to use. The title insurance purchased in a loan transaction is typically for the lender's protection should the title search miss an outstanding lien. Under Ohio law, a title company is obligated to offer the borrower the opportunity to purchase borrower's title insurance for protection should a lien be discovered after the close of the loan.

20) **"Who do I contact to obtain the closing documents for the loan twenty-four hours in advance of the closing?"**

Borrowers are entitled to obtain a copy of the HUD settlement statement twenty-four hours in advance of the closing as long as requested in writing before the twenty-four hour period begins. The lender or mortgage broker can provide consumers with information regarding how to make this request. Having the statement ahead of time gives consumers and the consumers' attorney time to thoroughly review the costs of obtaining the loan and to make sure that it is covering all debts to be consolidated into the new loan. It also allows time to initiate any changes that need to be made prior to the loan closing.

On the Day of the Closing:

Remember, take your time at the closing table and carefully review and understand ALL the documents you will be signing. SIGNING THE CLOSING DOCUMENTS DEMONSTRATES YOUR INTENT TO BE LEGALLY BOUND TO REPAY THE MORTGAGE LOAN. If you do not understand something, ask questions before you sign. You may want to consider hiring an attorney to review all the loan documents before you sign. Although hiring an attorney will be an additional expense, it may be a small price to pay in comparison to the headaches that can follow if you fall victim to an unscrupulous lender or sign a document you do not understand.

The Ohio Department of Commerce
Division of Financial Institutions
Office of Consumer Affairs
Toll Free Consumer Hotline - 1-866-278-0003
TTY/TDD: 1-800-750-0750
www.com.ohio.gov/fiin/

John R. Kasich, Governor Andre T. Porter, Director of Commerce

20 Questions To Ask A Lender Or Mortgage Broker

The process of obtaining a mortgage loan can be tedious and confusing. By asking the right questions, consumers can have a better understanding of the loan process and help ensure they are getting a loan tailored to their needs. The Department of Commerce Division of Financial Institutions (DFI) believes the following twenty questions will help consumers obtain key information when seeking a loan. As a result, consumers will be able to make a more informed decision about what loan is most suitable for their circumstances.

WHEN SEEKING TO OBTAIN A RESIDENTIAL MORTGAGE LOAN, AT A MINIMUM, CONSUMERS SHOULD ASK THESE QUESTIONS:

1) **"Do you represent a mortgage broker, mortgage banker or lender, consumer finance company, or a financial institution?"**

*It is important for borrowers to know who they are working with, as well as that individual or company's qualifications. A **loan officer** is an individual who works for a **mortgage broker** (generally a company) that assists consumers in finding a lender. A **mortgage banker** is a **lender** who directly makes real estate loans to consumers. A **consumer finance company** is a non-depository institution that makes high-risk loans with higher rates of interest than a financial institution. A **financial institution or depository institution** is a bank, credit union, savings & loan association or savings bank that, in addition to providing traditional banking services such as checking and savings accounts, also makes mortgage loans.*

2) *When working with a mortgage broker, ask the mortgage broker:* ***"Are you licensed by the State? If yes, please provide your company's license number and your loan officer license number. Have any public enforcement actions been taken against you by the State?"*** *Mortgage brokers doing business in Ohio are required to be registered with DFI. The loan officers who are salespeople for the mortgage broker company also are required to have their own licenses with the State. The loan officer with whom a consumer is working should be able to provide his or her license number as well as the registration number of the mortgage broker. To verify license numbers or to see if a company or individual is licensed, check the DFI web site at* ***http://www.com.state.oh.us/dfi/elicense.aspx*** *or contact DFI's Office of Consumer Affairs toll free at 1.866.278.0003. To determine if any public enforcement actions have been taken against the mortgage broker or loan officer by DFI or the Attorney General's office, go to http://www.com.state.oh.us/dfi/enforcement.aspx.*

3) **"What is the interest rate you are offering to me and is it a fixed or variable rate? Is this the best possible rate based on my credit score?"**

The interest rate determines the amount lenders charge to use their money and is quoted as a percentage. The rate may be a "fixed" rate which means that the rate remains the same for the entire length of the loan. There are also variable or adjustable rate loans where the interest rate can change during the loan term. The rate can go up or down and the payment will adjust accordingly. A lower interest rate results in lower monthly payments or the ability to buy a higher priced home.

A credit score is a consumer's history of repaying debt and is the main source lenders use to determine the interest rates they offer. To obtain the best possible interest rate, borrowers should shop around. A high credit score should result in being offered a low interest rate. DFI recommends that consumers obtain a copy of their credit report before applying for a loan. This will provide an opportunity to address any errors with the credit reporting agencies and assist consumers in receiving the best possible loan based on their credit history. Under federal law, consumers can obtain one free copy of their credit report from each of the three credit reporting agencies once every twelve months. Consumers can obtain copies of their credit report by visiting www.annualcreditreport.com.

4) "Can I lock my interest rate and, if so, for how long?"

A rate lock is when the lender or broker "locks in" a stated interest rate for a specific period of time, usually thirty days. A fee may be required to lock in an interest rate. This means that if interest rates rise, the consumer will receive the quoted or "locked" rate. If interest rates drop, the consumer may still receive the locked rate unless different arrangements are negotiated with the consumer's lender or mortgage broker. Rate locks should be in writing.

5) "What will my Annual Percentage Rate (APR) be?"

The APR is the cost of credit and includes the interest rate and all other finance charges. If the APR is .75 to 1 percentage points higher than the interest rate quoted to the consumer, there are significant fees being added to the loan.

6) "As a mortgage broker or banker, how much money will you be paid?"

A mortgage broker brings borrowers and lenders together and receives compensation for providing this service. The fees can be negotiated. Mortgage broker fees are disclosed in the various line items on the HUD settlement statement, including broker origination fee, processing fee, and application fee. Lenders also may pay the broker a yield spread premium which is a payment to the mortgage broker from the lender for selling the borrower a loan at a higher interest rate than the borrower would otherwise be charged. This is generally acceptable if there are no other fees being charged by the mortgage broker. A mortgage banker and other lenders also will be paid for the service of providing the consumer the loan. Their fees may include items such as a processing fee, application fee, and document preparation fee. Some of these fees are negotiable.

7) "What other costs besides your fees will be associated with this loan?"

Other costs may include points, prepaid items, third-party service charges, and title charges. Points are interest paid upfront and one point is equal to one per cent of the loan amount. Generally, if points are being paid, the consumer is receiving a reduced interest rate. Other costs will likely include paying for the appraisal and the credit report provided by third-party service companies. Prepaid items include interest due until the first payment and initial escrow balances for taxes and insurance. Title charges are from the title agency and can include a title search, title insurance, and attorney fees. It is possible to negotiate these fees with the title company.

8) "What is the principal balance of my loan?"

The principal balance of the loan is the total amount of money being borrowed. When purchasing a home, the principal balance typically is the price of the home plus any fees, minus the down payment. If refinancing, the principal balance is the payoff of the current mortgage, plus any fees. The principal amount also may include any other debt rolled into the loan or cash the consumer receives at closing.

9) "How much will the monthly payments be? Does this amount include escrow for property taxes and homeowner's insurance or will I be responsible for paying these expenses on my own?"

It is important for consumers to know exactly what the monthly payment will be in order for them to determine if they can afford the loan. This includes knowing what it will cost monthly to pay the principal and interest on the loan <u>in addition to homeowner's insurance and property taxes</u>. Beware: some unscrupulous mortgage brokers or lenders try to sell borrowers on a low payment by excluding the additional monthly amounts for property taxes and insurance from the monthly payment quote.

10) "When will my payments be due? What is the grace period?"

Knowing when payments are due can help consumers plan their monthly budget. This is especially important if consumers are on a fixed income or get paid once a month. Lenders may be willing to work with borrowers during the loan process to set a mutually agreeable due date. It is much harder to change the due date once the loan has been approved and the consumer begins making payments.

11) "What is the length of the loan? Is there a balloon payment at the end of the loan?"

Consumers should be aware of how long they will be paying on a loan. Traditionally, most loans are paid off in thirty years. However, fifteen and twenty year loans are available and can drastically reduce the amount of interest paid over the life of the loan. In some cases, the loan is a balloon note where the loan is not completely paid off during the term of the loan because the monthly payment only covers the interest due. In these cases, the borrower is obligated to pay off the balloon payment, which can be a considerable amount, at the end of the loan term.

12) "Who would be my lender?"

A mortgage broker's job is to find a lender for the consumer. The mortgage broker will not be loaning the money.

13) "What are the chances that my loan would get sold?"

Federal law requires that at the closing table, consumers receive and sign a document stating the likelihood that the loan will be sold. Some loans are never sold, some are sold immediately, and others are sold many times. It is also possible that only the servicing rights will be sold. Selling the servicing rights means that the consumer makes payments to a new company, but the original lender is still the note holder.

14) "If I pay off the loan early, would I be charged a prepayment penalty? If yes, what is the amount of the prepayment penalty? How many years into the loan will the prepayment penalty expire?"

A prepayment penalty is a fee the borrower may be required to pay if the loan is paid off early. Generally in Ohio, for loans of $75,000 or more, the prepayment penalty cannot exceed one per cent of the original principal balance of the loan and must expire after five years. For first mortgage loans of less than $75,000 made after January 1, 2007, there is no permitted prepayment penalty. There are some exceptions to this law. If a prepayment penalty differs from the one stated above, consumers should consult with private legal counsel.

15) "What is the appraised value of the property?"

The appraisal is an impartial opinion of property value, performed by an appraiser who compares like properties within a close distance to the subject property. It is completed for the lender's benefit, even if the consumer pays for it, to ensure that the lender is not lending more than the property is worth. To see if an appraiser is licensed in Ohio, consumers can check the Division of Real Estate & Professional Licensing's website at <u>www.com.state.oh.us/real</u>. Consumer may also contact the Division by calling 216.787.3100.

16) "If I pay for the appraisal, how do I obtain a copy of it?"

Sometimes a mortgage broker or lender will require a borrower to pay for the appraisal. If the borrower has paid for the appraisal, the consumer is entitled to a copy and the lender or mortgage broker can provide the consumer with directions for doing so. Remember, it is always best to make such a request in writing.

17) "If I pay for the credit report, how do I obtain a copy of it?"

A lender or mortgage broker may ask a consumer to pay for a credit report upfront. Ohio law now requires them to provide consumers with a copy of that report. (Remember, consumers can also obtain a copy of their