

Mortgage Loans

Don't Borrow Trouble: Avoid Borrowing Pitfalls

Work with credit and homebuyer counselors. Talk to a consumer credit counseling agency or nonprofit housing counselor before signing the loan documents. Borrowers should be educated about consumer credit and the home buying process. Knowledge gives you power!

Shop around for the best loan available. Borrowers should talk to several lenders to find the best loan for which they qualify. Understand the best loan terms available in the marketplace and compare the APR (annual percentage rate) of loans from different lenders. The APR takes into account both the interest rate and the points and fees of the loan.

Manage your money wisely. A borrower's credit history is his or her own responsibility. Review your income and expenses and borrow within your budget. Don't inflate your earnings or provide other false information to qualify for a loan -- you can end up with payments you cannot afford to make. Remember there are more costs associated with buying a house than just the mortgage cost.

Understand the loan terms. Borrowers should compare loan terms from different lenders. A nonprofit housing counselor or a lawyer can review the information with a borrower.

Find out about prepayment penalties. Borrowers should know if the loan offered to them has a prepayment penalty. Prepayment penalty should be a choice, not a requirement.

Say NO to "easy money." Borrowers should beware if someone claims "their credit problems won't affect the interest rate."

Make sure documents are correct. Be cautious of someone that offers to falsify a borrower's income information to qualify for a loan. Borrowers should never falsify information or sign documents that they know to be false.

Make sure documents are complete. A borrower should not sign documents that have incorrect dates or blank fields. Be wary of promises that a lender will "fix it later" or "fill it in later."

Ask about additional fees. Borrowers should question any items they didn't ask for. Borrowers should also beware if they are told that single premium credit insurance is required get a loan, or that purchasing it will help loan approval. Review every fee and compare different lenders' fees to ensure the most competitive loan terms.

Protect home equity. If borrowers are taking equity out of their property, they should take out the minimum amount needed. The equity in a home is a source of wealth, which builds up slowly over time.

Understand Your Contract

When purchasing a new home or refinancing an existing mortgage, consumers must make important financial decisions. Be sure that you are well informed and aware of all your options. Become familiar with the following terms that are frequently used in the lending industry. Knowing these terms is the first step to understanding a loan contract and making an educated borrowing decision.

Know the Annual Percentage Rate (APR) - This is the cost of your credit as a yearly rate. When shopping for a loan compare the APR offered by various lenders.

Know the Finance Charge - The finance charge is the dollar amount the credit will cost you. It is based on the APR, the amount borrowed and the length of the loan. Beware of inflated fees!

Know the Amount Financed - This is the dollar amount of the credit that is provided to you by your lenders.

Know if You Are Paying "Points" - "Points" are fees you pay to a lender to obtain a real estate secured loan. These prepaid finance charges are not refundable.

Know the Total Number and Exact Dollar Amount of Each Payment - This will help you determine if the loan is within your budget. It is important to also consider other possible contract terms, such as "balloon payments," when examining the cost and affordability of the loan.

Know the Payment Date - This is the date the payment must be received by the lender.

Know About Collateral - Collateral is property that is used to secure a loan. If a borrower defaults on the loan, the lender may take your collateral. In a real estate loan your home is your collateral.

Know the Total Dollar Amount of Payments - The total amount paid over the term of the loan if you have made all payments as scheduled.

Be a smart consumer!

If you need assistance or don't understand something, ask a credit counselor, a home buying counselor, an attorney or your REALTOR®. Your REALTOR® cannot give you legal or financial advice, but he or she can help you obtain the information or the assistance that you need. Information is also available on the WRA Web site - click on the REALTOR® Resources tab at www.wra.org, click on the WRA Resources pages line in the upper right, and then click on the Mortgage Loan Assistance line.

