Fair Lending: **Learn the Facts**

“Now, I say to you today my friends, even though we face the difficulties of today and tomorrow, I still have a dream. It is a dream deeply rooted in the American dream. I have a dream that one day this nation will rise up and live out the true meaning of its creed: –‘We hold these truths to be self-evident, that all men are created equal.’”

Dr. Martin Luther King, Jr.
March on Washington, DC
August 28, 1963

HUD's Mission Statement

HUD's mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination.

Office of Fair Housing and Equal Opportunity (FHEO) Mission

FHEO's mission is to create equal housing opportunities for all persons living in America by enforcing and administering laws that prohibit discrimination in housing on the basis of race, color, religion, sex, national origin, disability, and familial status.

Fair Housing Act

Title VIII of the Civil Rights Act of 1968 (Fair Housing Act), as amended, 42 U.S. Code 3601 et seq., prohibits discrimination in the sale, rental, and financing of residential dwellings, and in other residential real estate related transactions, based on race, color, national origin, religion, sex, familial status (defined as families with children under the age of 18 living with parents or legal custodians, pregnant women, or people in the process of securing the custody of children under the age of 18), and disability.

UNDERSTANDING FAIR LENDING

“I am proposing fair housing legislation again this year because it is decent and right. Injustice must be opposed, however difficult or unpopular the issue.”

President Lyndon B. Johnson – February 15, 1967

Understanding fair lending, and the law that governs it is important for everyone. Knowing how your fair housing rights are protected under the federal Fair Housing Act can help you recognize lending discrimination.

What is fair lending?

Fair lending prohibits lenders from considering your race, color, national origin, religion, sex, familial status, or disability when applying for residential mortgage loans. Fair lending guarantees the same lending opportunities to everyone.

Is there a law that protects my fair lending rights?

Yes. The federal Fair Housing Act protects your fair lending rights. The Office of Fair Housing and Equal Opportunity enforces the federal Fair Housing Act and state and local enforcement agencies enforce fair housing laws that are substantially equivalent to the federal Fair Housing Act. For more information about the Fair Housing Act, please visit www.hud.gov/fairhousing. There are other laws, including the Equal Credit Opportunities Act, which protect your rights, but are not enforced by HUD.

If I am not from the United States, does the federal Fair Housing Act protect me?

Yes, whether you are a U.S. citizen, registered alien (a "green card" holder), or an undocumented resident of the U.S., you are protected by the federal Fair Housing Act.

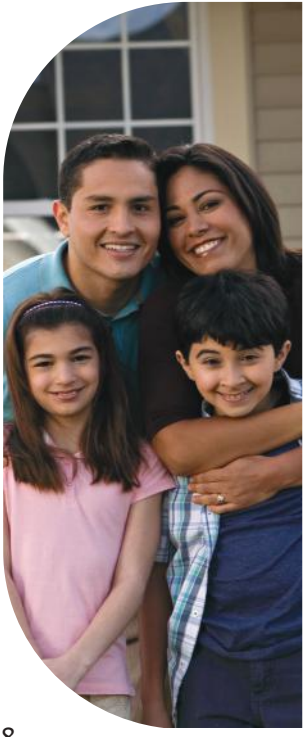
How can the Fair Housing Act protect me when I purchase a home?

The federal Fair Housing Act makes it unlawful to discriminate in the sale, rental, or financing of homes because of race, color, national origin, religion, sex, familial status, or disability.

What are some examples of discriminatory lending practices?

A lender commits discriminatory lending practices when he or she acts in one or more of the following manners:

- Refuses to make a mortgage loan on the basis of race, color, national origin, religion, sex, familial status, or disability;



- Refuses to provide information regarding mortgage loans on the basis of race, color, national origin, religion, sex, familial status, or disability;
- Imposes different terms or conditions on a mortgage loan, such as different interest rates, points, or fees on the basis of race, color, national origin, religion, sex, familial status, or disability;
- Discriminates in appraising property on the basis of race, color, national origin, religion, sex, familial status, or disability;
- Steers an applicant toward a bad mortgage loan product on the basis of race, color, national origin, religion, sex, familial status, or disability;
- Provides inferior servicing of a mortgage loan on the basis of race, color, national origin, religion, sex, familial status, or disability.

Can my bank officer commit lending discrimination?

Yes. Any lender, real estate and mortgage broker, appraiser, loan servicer, and title company can commit lending discrimination in any phase of the mortgage loan process. You should report any person, company, or entity attempting to violate your fair lending

rights immediately to HUD or a state or local fair housing agency. (Refer to Red Tab, *Reporting Lending Discrimination*)

When does lending discrimination occur?

Whether you are purchasing or refinancing a home, lending discrimination can occur at any stage of the lending process. For example, if a lender refuses to make a mortgage loan because of your race or ethnicity, or if a lender charges excessive fees to refinance your current mortgage loan based on your race or ethnicity, the lender is in violation of the federal Fair Housing Act.

What are some of the warning signs of lending discrimination?

The signs of lending discrimination may be blatant or subtle. They can occur in the marketing of mortgage loan products, mortgage loan transactions, terms and conditions of the loan, in the appraisal of a home, and in loan servicing.

In the marketing of mortgage loan products, be aware of:

- Aggressive solicitations of adverse terms of credit to targeted minority neighborhoods, racial or ethnic groups, and communities; or
- Racial steering to high cost lenders.

In the mortgage loan transaction, be aware of:

- Requiring that women, but not men, provide a co–signer for a loan.

In the terms and conditions of the mortgage loan that are more often imposed upon borrowers of a certain race or nationality or upon women, be aware of:

- Unnecessary closing costs;
- Inflated appraisal costs;
- Inflated broker or lender fees;
- Unnecessary recording fees;
- Excessive prepayment penalties; or
- Changing mortgage loan terms at closing without the consent of the borrower.

In the appraisal of a home, be aware of properties that are undervalued because of the race or nationality of either the borrower or the other residents in the surrounding neighborhood.

In the servicing of the mortgage loan, be aware of:

- Collection or foreclosure practices applied more harshly because of the race or nationality of either the borrower or the other residents in the surrounding neighborhood.

FOR
SAL

AVOID BECOMING A VICTIM

“To me, the Fair Housing Act of 1968 was the most vital issue before the Senate that year. I had always believed that the insidious cluster of ghetto problems, including poor schools and a lack of jobs and opportunity, could be eased by an end of discrimination in housing…”

Senator Edward W. Brooke
excerpt from “Bridging the Divide”

Learning about the lending documents, their purpose, and how HUD can assist in the lending process can increase your awareness and help prevent you from becoming a victim of lending discrimination.

What documents should I receive in the lending process?

Mortgage brokers and lenders are required to provide and accept a mortgage loan application from anyone who wishes to apply. As a successful applicant, a lender is required to provide the following at no cost to you:

- Good Faith Estimate;
- Truth In Lending Disclosure Statement;
- Copy of your loan application; and
- Mortgage Servicing Disclosure Statement

Borrowers should also receive a Special Information Booklet if they are purchasing a mortgage loan and a HUD–1 Settlement Form when the mortgage loan is closed or settled.

Why do I need these documents?

1. The Special Information Booklet contains consumer information regarding various real estate settlement services. The lender is required to provide this information only when the borrower is purchasing a home.

2. A Good Faith Estimate, or GFE, is an estimate of charges or range of charges that a prospective borrower is likely to incur in connection with financing a home. The lender is required to provide the borrower with a GFE within 3 business days after the mortgage loan application is received.

3. Borrowers will receive two Truth In Lending Disclosure Statements, or TILs, in the mortgage loan process. The first, a preliminary version, will be received with the Good Faith Estimate shortly after completing a mortgage loan application. The preliminary TIL discloses your annual percentage rate (APR), the finance charge, the amount financed and the total number of payments. The second version, a final version, is one of the documents that a borrower will sign during the mortgage loan closing or settlement. The final TIL discloses terms of your mortgage loan and any pre-payment penalties.

   Borrowers can compare the costs of different loans by comparing the preliminary TIL to other preliminary TILs from different lenders or with different type mortgage loans.

4. A HUD–1 Settlement Statement is received when the mortgage loan is closed or settled. Borrowers may request to receive a copy of the HUD–1 a day before settlement, so that they can compare the costs of the mortgage loan to what was disclosed in the Good Faith Estimate.

   A HUD–1 Settlement Statement:

   - Must show **all** actual settlement costs of all mortgage loan transactions;
   - Should clearly itemize **all** closing–related charges that are paid at settlement or outside of settlement;
   - Must be provided to the borrower during the "closing" or "settlement" of a residential real estate transaction; and
   - Should be issued for conventional loans, as well as Federal Housing Administration (FHA) and Veterans Administration (VA) mortgage loans.

   A borrower will receive a HUD–1 for all real estate related transactions, including:

   - Home purchase loans;
   - Refinance loans;
   - Property improvement loans;
   - Lender–approved mortgage loan assumptions;

- Home Equity Lines of Credit or HELOCs; and
- Reverse mortgages.

5. A copy of the borrower's mortgage loan application is sent to the borrower with the other preliminary disclosures such as the Truth in Lending Disclosure Statement, Mortgage Servicing Disclosure Statement, and the Good Faith Estimate. A borrower can check the information on the application against what they know to be true about their own financial capacity.

6. The Mortgage Servicing Disclosure Statement discloses to the borrower whether or not a lender intends to service the mortgage loan or transfer it to another lender and any complaint resolution procedures. This can help the borrower understand what kind of company he or she is dealing with.

How do I use these documents during the lending process?

Borrowers should refer to the Special Information Booklet, Good Faith Estimate (GFE), HUD-1, and the Mortgage Servicing Disclosure Statement until the closing or settlement of your mortgage loan. For example:

- The Special Information Booklet can be used as a reference for available real estate settlement services.

- The GFE should be retained by the borrower to compare with the final settlement costs and to ask the lender questions about any changes.
- The Mortgage Servicing Disclosure Statement will be used as a reference of the lender's intentions regarding servicing the loan.

Do I need any of these documents after the closing of my mortgage loan?

Yes. As a borrower, you will need your HUD–1 Settlement Statement. The HUD–1 itemizes the services provided to you and the associated fees charged during the lending process. After closing, you will use the HUD–1 to record the real estate transaction fees when filing your personal income taxes.

Who should I contact if I need assistance during the lending process?

HUD has many resources available to assist you during the lending process. For a complete listing of the local HUD offices, visit the HUD website at www.hud.gov/offices.

Also, HUD approved housing counseling agencies throughout the country can provide you with advice, free of charge or for a nominal fee, such as: buying a home, defaults, foreclosures, credit issues, and reverse mortgages. To find a housing counselor near you, call (800) 569–4287, or go to HUD's housing counselors list online at www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

REPORTING LENDING DISCRIMINATION

“We are confronted primarily with a moral issue… whether all Americans are to be afforded equal rights and equal opportunities, whether we are going to treat our fellow Americans as we want to be treated.”

President John F. Kennedy, 1963

Learning how to report fair lending violators can help stop lending discrimination.

Who do I contact to report lending discrimination?

If you feel that you have been discriminated against by a lender, broker, or any person involved in a residential real estate related transaction, you can file a complaint with HUD or a fair housing agency.

How do I file a complaint?

You can file a lending discrimination complaint with HUD by:

- Contacting the National Discrimination Hotline on 1–800–669–9777 (voice), 1–800–927–9275 (TTY);
- Completing a complaint form on the HUD website at www.hud.gov/fairhousing; or
- Sending a letter to your local HUD office.

For consumers with a disability, HUD also provides:

- Interpreters;
- Tapes and Braille materials; and
- Assistance in reading and completing forms.

What information should I include in my complaint?

Your complaint must include:

- Your name and address;
- The name and address of the person or company that your complaint is against;
- The address of or other identifying information about the housing involved;
- A short description of the alleged violation (the event that caused you to believe your rights were violated); and
- The date(s) of the alleged violation.

Who can file a complaint?

Fair Housing laws provide that anyone injured by lending discrimination has the right to file a fair housing complaint. If you have been harmed, or are about to be harmed, by a discriminatory lending practice, you can file a complaint with HUD free of charge, and HUD will investigate your complaint at no cost to you.

Any person can file a complaint, including entities such as corporations, private fair housing organizations, disability rights groups, or homeowners' associations if they have been injured by discriminatory lending practices. Anyone can report lending discrimination to HUD.

How does filing a complaint affect my current mortgage loan?

Filing a complaint does not affect your current mortgage loan. Borrowers are responsible for meeting their responsibilities with the lender, broker, or any person involved in a residential real estate related transaction, throughout the investigation.

What is the time frame for filing a fair housing complaint?

Complaints must be filed with HUD within one year of the occurrence or termination of the alleged discriminatory act. You may also file an action in federal court within two years of the last occurrence or termination of the alleged discriminatory act.

Depending on the city, county, or state in which the alleged discriminatory act occurs, you may also have the right to file a complaint with a state or local governmental agency whose time frames for filing complaints may differ from those provided by the federal Fair Housing Act.

What happens when I file a complaint?

When HUD receives your complaint, it will either assign it to the Office of Fair Housing and Equal Opportunity (FHEO) for investigation or, where applicable, refer it to a state or local agency (Fair Housing Assistance Program agency otherwise known as "FHAP" agency). Each FHAP enforces a fair housing law that HUD has determined to be substantially equivalent to the Fair Housing Act. FHEO will notify you when it receives your complaint. FHEO or the FHAP agency will:

- Notify the parties that you believe are responsible for the alleged discrimination, known as "respondents," and give them the opportunity to submit a response; and
- Investigate your complaint and determine whether there is reasonable cause to believe that your rights under the Fair Housing Act or a substantially equivalent fair housing law have been violated.

What happens during the investigation of my complaint?

While the investigation proceeds, FHEO or the FHAP agency will attempt to reach a voluntary resolution of the complaint, if possible, which may result in a conciliation agreement. A conciliation agreement may be executed only with the consent of all parties. If the parties sign a conciliation agreement, HUD or the FHAP agency will end its investigation and close the case. If attempts at conciliation fail, the investigation will proceed.

Will I have to pay for a lawyer if my case ends up before a judge?

No. If HUD or a FHAP agency investigates and finds reasonable cause to believe that discrimination occurred and your case does not settle after such a finding, your case will be heard in either an administrative hearing or in a court of law. In this situation, your case will be handled by a **government attorney at no cost to you**.

What happens to my complaint if HUD or the FHAP agency finds that no discrimination occurred?

If HUD or the FHAP agency finds no reasonable cause that discrimination occurred, your case will be closed and the respective agency will send you notification explaining why your case was closed. Even if HUD or the FHAP agency finds no reasonable cause, you still have the right to file a private civil lawsuit in court, but you must file within a required timeframe, not counting the period during which HUD or the FHAP agency investigates and pursues your case.

What happens if HUD or a FHAP agency finds reasonable cause to believe that discrimination occurred against me?

The Fair Housing Act and substantially equivalent fair housing laws allow you to elect how your complaint will be handled. This allows you to decide whether your case will be heard in an administrative hearing or in court. After reasonable cause is found, parties will be asked to “elect” one of these forums.

What happens if I decide or the respondent decides to have my complaint resolved in an administrative hearing?

If your case goes to an administrative hearing HUD or FHAP agency attorneys will litigate the case on your behalf free of charge. In addition, you may intervene in the case and hire your own lawyer at your own expense. In the HUD context, an Administrative Law Judge (ALJ) will consider evidence from you and the respondent. If the ALJ decides that discrimination occurred the respondent may be ordered to:

- Compensate you for actual damages, including humiliation, pain and suffering;
- Provide other options for relief, for example, make mortgage loans available with nondiscriminatory terms;
- Pay the federal government a civil penalty to vindicate the public interest. The ALJ will assign the appropriate penalty for the first violation and will increase the level of penalties if additional violations have occurred; and
- Pay you reasonable attorney's fees and costs.

What happens if I or the respondent decides to have my complaint resolved in court?

Should you decide to have your case heard in court, HUD will refer your case to the U.S. Department of Justice (DOJ). DOJ will file a civil lawsuit where the discrimination allegedly occurred. Government attorneys will litigate the case on your behalf. In addition, you may intervene in the case and hire your own lawyer at your own expense. A FHAP agency will have a similar process if you or the respondent elects to have the complaint resolved in court. Either you or the respondent may request a jury trial. If the judge or jury decides that discrimination occurred, the respondent can be ordered to:

- Compensate you for actual damages, including humiliation, pain and suffering;
- Provide other options for relief, for example, make mortgage loans available with nondiscriminatory terms;
- Pay the federal government a civil penalty to vindicate the public interest. The Federal Court Judge will assign the appropriate penalty or the first violation and will increase the level of penalties if additional violations have occurred; and
- Pay reasonable attorney's fees and costs.

SOLD
OR
ALE

BEWARE OF MORTGAGE LOAN CHOICES AND TERMS

“As if it harm’d me, giving others the same chances and rights as myself – As if it were not indispensable to my own rights that others possess the same.”

Walt Whitman

Applicants and borrowers should become knowledgeable about the types of mortgage loans and their terms and conditions. Being aware of how a mortgage loan works will assist you in selecting the most appropriate financing.

With any mortgage loan, ask your lender to review all of the terms with you.

What is a mortgage loan?

When you buy a house, a lender gives you a mortgage loan in exchange for an interest in the house. Mortgages can be issued for either buying or refinancing a house. Borrowers should select a mortgage loan by the features (terms and conditions) it offers. For example:

- Dollar amount of the mortgage loan;
- Term (time period) of the mortgage loan;
- Interest rate of the mortgage loan; and
- Method used for paying off the mortgage loan.

What is a fixed rate mortgage and how does it work?

A fixed rate mortgage loan is a loan where the interest rate remains the same throughout the term (time period) of the loan. The borrower knows that the interest rate will not change until the borrower either pays off or refinances the mortgage loan.

What is an adjustable rate mortgage and how does it work?

An adjustable rate mortgage has an interest rate that changes during the life of the loan. Typically, the initial rate is very low and adjusts upward after as little as one month.

What is a balloon payment mortgage and how does it work?

This type of mortgage loan does not fully amortize over the term of the loan, leaving a balance due at maturity. The final payment (balance) of the mortgage loan is called a balloon because of the large size of this payment. A balloon payment mortgage can have either adjustable or fixed payments until the balloon is due.

What is negative amortization?

Negative amortization occurs when the monthly payments do not cover all of the interest costs. This unpaid interest is added to the unpaid principal balance, which means that the balance of the loan can grow. If borrowers do not pay a sufficient amount each month, they can owe more than they did at the beginning of the mortgage loan.

Negative amortization can occur when an adjustable rate mortgage (ARM) loan has a payment cap that results in monthly payments not high enough to cover the interest due.

What is a prepayment penalty?

Prepayment penalties are fees imposed on borrowers when they attempt to refinance or pay off their mortgage loan before a fixed deadline determined by the lender. Prepayment penalties are designed to compensate lenders for the fixed costs of originating the mortgage loans. These penalties can be very expensive and should be disclosed in both the preliminary and final Truth In Lending Disclosure Statement and in the mortgage note or an addendum to the note.

Borrowers should ask these four key questions before committing to a mortgage loan:

- Does the mortgage loan feature prepayment penalties?
- How much is the penalty fee and how many years is it in effect?
- Will the lender offer a lower interest rate in exchange for the borrower accepting a prepayment penalty?
- Does the lender offer other mortgage loans without prepayment penalties?

(For additional terms, refer to Blue Tab, *Glossary*)

OTHER LENDING RESOURCES

“The American house will be divided against itself so long as there is prejudice against any American buying or renting a home.”

Senator Ted Kennedy
August 12, 1980

EQUAL HOUSING OPPORTUNITY

Learn about other regulatory agencies that can assist you in resolving complaints against banks and non-bank lending institutions.

Organization and address	Role in resolving complaints against lenders
U.S. Department of Housing and Urban Development Office of Fair Housing & Equal Opportunity 451-7th Street, S.W. Washington, DC 20410 (800) 669-9777 voice (800) 927-9275 TTY www.hud.gov/fairhousing	Handles complaints about unfair lending against all lenders and others involved in the mortgage process.
U.S. Department of Housing and Urban Development Federal Housing Administration 451-7th Street, S.W. Washington, DC 20410 (800) CALL-FHA (225-5342) www.fha.gov	Handles complaints about mortgage loans insured by FHA.

Organization and address	Role in resolving complaints against lenders
Federal Deposit Insurance Corporation Division of Compliance 1730 Pennsylvania Avenue, N.W. 7th Floor Washington, DC 20429 (877) 275–3342 www.fdic.gov/consumer/index.html	Handles complaints against and regulates FDIC insured state banks which are not members of the Federal Reserve System.
Federal Trade Commission Consumer Response Center 600 Pennsylvania Avenue, N.W. Washington, DC 20580 (877) 382–4357 www.ftc.gov	Handles complaints concerning most non–bank lenders, such as mortgage and finance companies and state credit unions.

FAIR LENDING

EQUAL HOUSING OPPORTUNITY

EQUAL HOUSING OPPORTUNITY

Organization and address	Role in resolving complaints against lenders
National Credit Union Administration 1775 Duke Street Alexandria, VA 22314–3428 703) 518–6300 www.ncua.gov	Handles complaints against and regulates National Credit Unions.
Office of the Comptroller of the Currency Compliance Management 250 E Street, S.W. Mail Stop 3–9 Washington, DC 20219 (800) 613–6743 www.occ.treas.gov	Handles complaints against and regulates National Banks, which usually have "National" in their name or "N.A." after their name.

Organization and address	Role in resolving complaints against lenders
Office of Thrift Supervision Consumer Affairs Division 1700 G Street, N.W. Washington, DC 20552 (800) 842-6929 www.ots.treas.gov.	Handles complaints against and regulates Federal Savings and Loans, and also Federal Savings Banks.
The Federal Reserve Board Division of Consumer and Community Affairs 20th and Constitution Avenue, N.W. Mail Stop 801 Washington, DC 20551 (202) 452-3693 www.federalreserve.gov.	Handles complaints and regulates state-chartered banks and trusts. Also, administers the Truth In Lending Act, Equal Credit Opportunity Act, and Fair Credit Reporting Act.

EQUAL HOUSING OPPORTUNITY

EQUAL HOUSING OPPORTUNITY

Organization and address	Role in resolving complaints against lenders
U.S. Department of Agriculture Rural Development/ Rural Housing Services Mail Stop MC-0783 Washington, DC 20250 (202) 720-1474 www.rurdev.usda.govl	Handles complaints about mortgage loans insured by Rural Development.
U.S. Department of Justice Civil Rights Division 950 Pennsylvania Avenue, N.W. Housing and Civil Enforcement Section, NWB Washington, DC 20530 (800) 896-7743 www.usdoj.gov/crt/housing/fairhousing/index.html	Handles complaints involving a "pattern or practice" of illegal discrimination or that raise an issue of "general public importance," which are filed under the federal Fair Housing Act or the Equal Credit Opportunity Act.

Organization and address	Role in resolving complaints against lenders
U.S. Department of Veterans Affairs Consumer Affairs Service 810 Vermont Avenue, N.W. Washington, DC 20420 (202) 273-5770 www.va.gov	Handles complaints about mortgage loans guaranteed by the Department of Veterans Affairs.

For additional lending resources, please check with your state and local government offices such as consumer protection agencies, the Department of Banking and Financial Services, and your state Office of Attorney General.

NOTE: State chartered bank deposits are FDIC insured but are regulated by that state's banking/financial institutions department. Complaints against these banks should be filed with the state's banking department.

FAIR LENDING

EQUAL HOUSING OPPORTUNITY

GLOSSARY

Fair Housing:
It's Not an Option;
It's the Law

Adjustable rate mortgages(**ARMs**) – Adjustable rate mortgages (ARMs) usually start with a lower interest rate than a fixed rate mortgage, therefore lowering monthly payments. This allows the borrower to qualify for a larger mortgage than would be possible with a fixed-rate mortgage. The interest rate on an ARM is adjusted periodically based on an index that reflects changing market interest rates. When the interest rate is adjusted, the monthly payment goes up or down.

Amortization – The gradual repayment of a mortgage loan by making regular payments over time. To be "fully amortizing," payments must cover both the principal amount and interest due on the mortgage loan for the given period. An amortization schedule is an established timetable for making payments.

Annual percentage rate (**APR**) – Measured as the percentage of a mortgage loan's principal that would be paid in finance charges if the mortgage loan was carried for one year. APR includes both interest costs and fees charged on a mortgage loan. Disclosure of the APR of mortgage loans is necessary so that borrowers can better understand the cost of the credit.

Applicant – A person who has completed the paperwork for a mortgage loan.

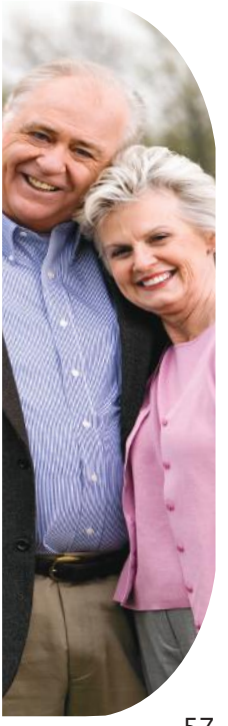
Balloon mortgages – Type of mortgage loan in which the final payment is significantly larger than the payments that are made over the mortgage term. Borrowers might choose a balloon mortgage if they anticipate refinancing at the end of the term or if they have enough money to pay off the balance of a mortgage loan in a lump sum.

Borrower – A person who has been approved to receive a mortgage loan and is then obligated to repay it and any additional fees according to the mortgage loan terms.

Collateral – An item of value that a lender can take as compensation if a borrower fails to repay a mortgage loan as scheduled. Borrowers generally are required to secure a mortgage loan with real or personal property as collateral. On mortgage loans, the property that the borrower purchases usually serves as collateral.

Credit history – A borrower's record of various debts (including credit cards and other consumer debt) and whether payments of those debts were timely. Mortgage lenders examine borrowers' credit histories to help determine the kind of mortgage loan and terms of credit for which they are eligible.

Credit score – A credit rating established according to an independent statistical evaluation of your ability to repay debt based on your



borrowing and repayment history. Credit grantors use a point system to evaluate your credit history, sometimes on a scale of 300 to 850. If you always pay your bills on time, you are more likely to have good credit and therefore may receive favorable terms on a mortgage loan or credit card, such as relatively low interest rates. If your credit rating is poor because you have paid bills late or have defaulted on a loan, you are likely to get less favorable terms or may be denied credit altogether.

Debt to income ratio – the ratio of debt payments to income, including both a borrower's housing debt and other debts. Lenders calculate this ratio during the mortgage loan underwriting process and use the result as one major factor in determining whether a borrower qualifies for a mortgage loan. A higher ratio means a greater debt burden and generally indicates a greater risk of default.

Equal Credit Opportunity Act (**ECOA**) – Federal law requiring creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or because all or part of the applicant's income is derived from any public assistance program, or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act. ECOA can be found in U.S. Code Title 15, chapter 41, sub–chapter IV.

Fair Credit Reporting Act (**FCRA**) – A consumer protection law that regulates the disclosure of consumer credit reports by consumer credit reporting agencies and establishes procedures for correcting mistakes on one's credit record. FCRA can be found in 15 U.S. Code section 1681, et seq.

Fair lending – The prohibition against unlawful discrimination in lending. The Fair Housing Act prohibits discrimination on the basis of race, color, religion, national origin, sex, familial status, or disability. In addition, the Equal Credit Opportunity Act (which is not administrated by HUD) prohibits discrimination because of age, receipt of public assistance, marital status, and the good faith exercise of rights under the Consumer Protection Act.

Fee – Any cost that the borrower(s) must pay for services.

Foreclosure – The legal proceedings initiated by a lender to repossess the collateral for the mortgage loan that is in default.

Good Faith Estimate (**GFE**) – Is an estimate of charges or range of charges that a prospective borrower is likely to incur in connection with financing a home.

HUD-1 Settlement Statement – A disclosure form provided to the borrower during closing or settlement of a residential real estate transaction that itemizes all actual settlement costs of all mortgage loan transactions.

Income – Money earned or received from various sources, such as employment, investments, trusts, and child support.

Interest – The fee charged by lenders for extending credit, usually a percentage of the mortgage loan amount. Even a small difference in an interest rate can make a big difference in how much a borrower pays over time. Responsible lenders adjust interest rates according to their level of risk in a mortgage loan.

Loan term – The loan term is the length of time before the mortgage loan is due to be repaid in full. Most mortgage loans have 15, 20, or 30-year terms.

Points – Prepaid interest on the borrower's mortgage, charged by the lender at the time of the closing. Each point is one percent of the mortgage loan amount. For example, 2 points on a $100,000 mortgage loan would be $2,000.

Predatory lending – The use of abusive and exploitive lending practices that extracts the equity out of a homeowner's home and/or increase indebtedness. This type of lending violates federal fair lending laws if it targets members of protected classes for harsher treatment and conditions.

Prepayment – Additional payments made by the borrower which may reduce interest costs by lowering the balance and thereby shortening the time to pay off the mortgage loan.

Prepayment penalty – A penalty that may be imposed for paying off a mortgage loan before it reaches the end of its term.

Principal – The balance of money lent, excluding interest.

Redlining – The refusal to offer credit or insurance in certain neighborhoods.

Refinance – The payoff of an existing mortgage loan with a new mortgage loan using the same property as security. Homeowners may refinance to get cash drawn from existing home equity or to obtain a new mortgage loan with a better interest rate and/or payment terms.

Reverse Mortgage – A special type of mortgage loan that borrows against the equity built up over years of prior mortgage payments. The borrower must be a homeowner, 62 years of age of older, live in the home, and own their home outright or have a low mortgage balance that can be paid off at the closing with proceeds from the reverse mortgage loan. The homeowner can receive either a lump sum or monthly payments for an agreed time frame, exhausting the equity from the house. This type of mortgage loan does not include any repayment terms and is satisfied when the homeowner or his or her representative sells the house or pays off the mortgage loan.

Reverse redlining – A practice in which lenders specifically market high cost or predatory loans to potential customers based on factors such as race or ethnicity. Reverse redlining is a form of discrimination not because it excludes minorities and other vulnerable populations, but because it targets and exploits them by offering loans with abusive terms and conditions.

Subprime – Is a segment of the lending market that extends credit to borrowers who either cannot or perceive they cannot qualify for a prime rate mortgage loan. This type of mortgage loan has higher interest rates than prime mortgage loans.

Truth In Lending Act (**TILA**) – A federal law designed to protect consumers in credit transactions by requiring clear disclosure of key terms of the lending arrangement and all costs. TILA can be found in 15 U.S. Code section 1601, et seq.

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

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