



**Free E-BOOK**

**ON**

**How To**

**Restore Your**

**Credit**

**Credit Restoration Tips**

## Table Of Contents

1. Introduction To Credit Restoration.....	3
2. Late Payments and Pre-Foreclosures.....	7
3. Foreclosure and What it means to You.....	14
4. Bankruptcy Chapter 13 and 7.....	29
5. Summary of what we have learned.....	31

## **Introduction To Credit Restoration.**

### **Rebuilding Damaged Credit**

Bad credit can happen to good people. Don't despair.

As you do so, your credit score will improve, resulting in better credit offers and a substantial savings in money.

With patience and timely repayments, you'll likely be able to build a new credit history that creditors will look upon favorably when making decisions about your ability to handle even more credit.

The key to having great credit is to understand the factors that can hurt your Credit Score or Rating.

Bankruptcies, tax liens, judgments, student loans, credit counseling, numerous inquiries, repossessions, collections, late payments and charge-offs bring your score down and hinder your chances of obtaining a new loan.

### **How It Works**

Pull 3 separate credit reports from the 3 credit reporting agencies, Experian, Transunion, and Equifax, and dispute any and all negative items.

The entire dispute process is done online and ***does not generate any inquiries*** or put any negative marks on your credit report.

### **What to Expect**

Results can be expected within 30 - 45 days and are mailed directly to the client from the 3 credit reporting agencies.

Once these results are received, you can dispute any remaining items a second time.

Usually the results we are reached within that time frame.

## **Why Your Credit Score is So Important**

The credit scoring model seeks to quantify the likelihood of a consumer to pay off debt without being more than 90 days late at any time in the future.

Credit scores can range between a low score of 350 and a high score of 850.

The higher the score, the better it is for the consumer, because a high credit score translates into a low interest rate.

This can save literally thousands of dollars in financing fees over the life of the loan.

Only one out of 1,300 people in the United States have a credit score above 800. These are people with a stellar credit rating that get the best interest rates.

On the other hand, one out of every eight prospective home buyers is faced with the possibility that they may not qualify for the home loan they want because they have a score falling between 500 and 600.

Mortgage lenders consider a score of 700 or above to be very good.

### **The Five Factors of Credit Scoring**

1. Payment History– 35% Impact
2. Outstanding Credit Balances– 30% Impact
3. Credit History– 15% Impact
4. Type of Credit– 10% Impact
5. Inquiries– 10% Impact

## **Late Payments and Pre-Foreclosures**

### **What happens when I miss my mortgage payments?**

1. If you are late 30 days your Credit score goes down to 93%
2. If you are late 60 days the Credit Score goes to 90%
3. After ninety days the credit score goes to 87%

If you continue to have late payments then ultimately Foreclosure may occur.

When this happens, your property will be worth less than the total amount you owe on your mortgage loan.

You will be pursued by your lender or the U.S. Department of Housing and Urban Development (HUD) for a deficiency judgment, if this happens, you not only lose your home, but there also would be an additional debt that you would owe to your lender or to HUD.

Foreclosure or a deficiency judgment will seriously affect your ability to qualify for credit in the future.

If possible, avoid this pitfall!

### **What should I do if I am late with a payment?**

1. Never throw away letters from your lender. Call or write the lender immediately if you miss a payment. Explain your situation and be prepared to provide them with financial information, such as monthly

income, and expenses, or the reason you were late. They may be able to help if you disclose all information.

2. Contact a HUD-approved housing counseling agency. Call 1-800-569-4287 or TDD 1-800-877-8339 for the housing counseling agency nearest you. These agencies are valuable resources. They frequently have information on services and programs offered by Government agencies as well as private and community organizations. The housing counseling agency may also offer credit counseling. These services are usually free of charge.
  
3. If you bought your home with a Veterans Administration (VA) guaranteed loan, call the VA office nearest you.

### **What are your alternatives?**

Your options include the following:

1. Special Forbearance. Your lender may be able to arrange a repayment plan, which would be based upon your financial situation and may even provide for a temporary reduction or suspension of your payments.

You may qualify for this if you have recently experienced an involuntary reduction in income or an increase in living expenses.

You also must furnish information to your lender to show that you would be able to meet the requirements of the new payment plan.

2. Mortgage Modification. You may be able to refinance the debt and/or extend the term of your mortgage loan.

This will help you catch up by possibly reducing the monthly payments to a more affordable level.

You may qualify if you have recovered from a financial problem but your net income is less than it was before the default (failure to pay).

### 3. Partial Claim.

Your lender may be able to work with you to obtain an interest-free loan from HUD to bring your mortgage current.

You may qualify if:

1) your loan is at least 4 months delinquent, and no more than 12 months delinquent;

2) your mortgage is not in foreclosure

3) you are able to begin making full mortgage payments. When your lender files a Partial Claim, the U.S. Department of Housing and Urban Development will pay your lender the amount necessary to bring your mortgage current.

4. You must execute a Promissory Note, and a Lien will be placed on your property until the Promissory Note is paid in full.

The Promissory Note is interest-free, and will be due if you sell or leave your property, or when your mortgage matures.

### **How you know when you qualify for these alternatives**

A housing counseling agency will help you determine if any of these options meet your needs.

You should also discuss the situation with your lender.

## **What to be aware of:**

Solutions that sound to simple or too good to be true usually are.

If you are selling your home without professional guidance, beware of buyers who try to rush you through the process.

There are people who will use your predicament to take advantage of you.

## **Be especially alert to the following:**

### 1. Equity skimming.

This type of scam involves a "buyer" approaching you and offering to get you out of financial trouble by promising to pay off your mortgage or give you a sum of money when the property is sold.

The "buyer" may suggest that you move out quickly and deed the property to him or her.

The "buyer" then collects rent for a time, does not make any mortgage payments, and allows the lender to foreclose. Remember that signing over your deed to someone else does not necessarily relieve you of your obligation on your loan.

### 2. Phony counseling agencies.

Some groups who call themselves "counseling agencies" may approach you and offer to perform certain services for a fee.

These could well be services you could do for yourself, free, such as negotiating a new payment plan with your lender, or pursuing a pre-foreclosure sale.

If you have any doubts about such services call HUD-approved housing counseling agency.

Do this before you pay anyone or sign anything.

## **Precautions you should take**

Here are several precautions that should help you avoid being "taken" by a scam:

1. Never sign papers you do not fully understand.
2. Get all "promises" in writing.
3. Beware of any loan assumption where you are not formally released from liability for your mortgage debt and contracts of sale.
4. Check with an Attorney or your Mortgage Company before entering any deal with your home.
5. If you are selling the house yourself to avoid foreclosure, make sure you check to see if there are any complaints against the prospective buyer.

You can contact your state's Attorney General, the State Real Estate Commission, or the local District Attorney's Consumer Fraud Unit for this type of information.

Do a Pre-foreclosure sale if you have exhausted every other option.

This will allow you to sell your property and pay off your mortgage loan to avoid foreclosure and damage to your credit rating.

You may qualify if:

- 1) The "as is" appraised value is at least 70% of the amount you owe and the sales price is 95% of the appraised value,

2) The loan is at least 2 months delinquent prior to the pre-foreclosure sale

3) you are able to sell your house within 3 to 5 months

An additional benefit to this option is the assistance you will receive with the Seller-paid closing costs.

### **Deed-in-lieu of foreclosure**

As a last resort, you may be able to voluntarily "give back" your property to the lender.

You will still lose the house, but it will help your chances of getting another mortgage loan in the future.

You can qualify if:

1) you are in default and don't qualify for any of the other options;

2) your attempts at selling the house before foreclosure were unsuccessful;

3) you don't have another FHA mortgage in default.

## **Main points To Remember**

1. Make every effort to not lose your home and damage your credit history.
2. Call or write your mortgage lender immediately.
3. Stay in your home to make sure you qualify for assistance.
4. Arrange an appointment with a housing counselor to explore your options. Call HUD-approved housing counseling agency.
5. Cooperate with the counselor or lender trying to help you.
6. Explore every alternative to losing your home.
7. Beware of fraud.
8. Do not sign anything you do not understand.  
Remember that signing over the deed to someone else does not necessarily relieve you of your loan obligation.
9. Act now. Delaying can't help. If you do nothing, **YOU WILL LOSE YOUR HOME** and your good credit rating.

# **Foreclosures What to Know!**

## **Saving Your Home from Foreclosure**

Foreclosure is the legal process that your mortgage lender uses to take your home when you fall behind on your mortgage payments.

If you are faced with foreclosure, you can work to save your home—or at least limit the financial damage caused by foreclosure—if you understand your options and take the appropriate steps.

## **Saving your home**

Foreclosure—the repossession of your home by your lender—means you will lose the property and any equity you had in it.

Your credit record will be damaged and you may incur a tax liability if the lender foregoes (forgives) any part of your debt.

Foreclosure becomes a possibility when you get significantly behind on your monthly mortgage payments.

**You could easily find yourself in a position where you cannot make one or more full mortgage payments for a variety of reasons, including:**

- Unplanned expenses or a loss of income: An emergency car or home repair or unexpected medical bills can leave you short of funds to pay your other bills.
- A long-term or permanent loss of income due to a layoff, a reduction in overtime hours, a divorce, or an injury or illness that keeps you away from work could affect your ability to make your full mortgage payment not just this month, but for many months.
- A home loan that requires a large increase in monthly payments: More than ever, borrowers are in loans that are structured so that at some

point (often between one and five years after you make the first payment) the required monthly mortgage payment goes up significantly.

- Depending on the loan terms and prevailing interest rates at the time the rate adjusts or “resets,” your monthly payment can increase by many hundreds of dollars.
- Predatory loan terms: A predatory loan includes unfair or deceptive terms, high rates and costly fees, payment requirements that the lender knows will be difficult for you to meet, or features that get you deeper into debt and strip your equity. Since these loans are often unaffordable from the outset, the risk of foreclosure is very great.
- By some estimates, one in five homeowners are at risk of losing their homes due to these types of loans. Despite your best efforts to plan for emergencies, prepare for higher payments and avoid abusive lenders, you may still find yourself in default (missing one or more payments). If that happens, you may still save your home from foreclosure by understanding your options and taking the appropriate steps.

## **Keeping your home**

Many homeowners believe that all lenders are eager to foreclose and take possession of their property.

The predatory or abusive lenders may intentionally lend money with the goal of pursuing foreclosure and repossessing the home.

Legitimate mortgage lenders prefer to receive your loan payments, and will foreclose only as a last resort because it is a costly and time-consuming process.

Lenders are required to explore options to keep borrowers in their homes.

This means your lender may offer special “loss mitigation” programs to help committed borrowers avoid foreclosure.

## **Lender solutions to foreclosure**

Lenders have tools to get borrowers back on track.

Though lender solutions vary, possible foreclosure prevention tools include:

- **Reinstatement.** Occurs when you pay the lender the entire past-due amount you owe, plus any late fees or penalties, by an agreed upon date.
- **Repayment plan.** Under this arrangement, you add an additional amount of money to your regular monthly payment until you make up the past-due amount you owe.
- **Forbearance.** A formal agreement with the lender under which your mortgage payments are reduced or suspended for an agreed upon period. At the end of that period, you resume regular payments, and bring the loan current through a lump sum payment or additional partial payments over a number of months (unless the loan has also been modified to make this unnecessary).
- **Loan modification.** Involves permanently changing one or more of the terms of the mortgage to make payments more manageable for you. Modifications include lowering the interest rate, extending the term of the loan, or adding missed payments to the loan balance.

Mortgages through the Federal Housing Administration (FHA) and Veterans Administration (VA) may offer different or additional foreclosure alternatives.

For example, an FHA borrower may be eligible for a one-time payment from the FHA insurance fund to the lender to bring the mortgage current.

The borrower is responsible for repaying the “partial claim” when you pay off the mortgage or sell the property.

The best solution (sometimes called a “workout” or “cure”) will depend on your situation.

A repayment plan may be a good remedy for someone who has to make up only one missed payment.

A loan modification may be necessary for someone facing a long-term reduction in income.

You and the lender work together to determine if any of the available tools will get you back on track.

If you and the lender cannot agree on a feasible repayment plan or other remedy, look into filing Chapter 13 bankruptcy. (explained in the next section)

This temporarily suspends the foreclosure process and can force the lender to accept a repayment plan that is more affordable for you.

Bankruptcy isn't always a solution—it will damage your credit and new bankruptcy laws enacted in 2005 make it tougher to file bankruptcy for some people.

Depending on the state you live in, bankruptcy might help save your home.

Talk to a HUD-approved housing counselor to learn more about this option.

## Communicate with your lender

Many people lose their homes because they are too ashamed to act, or they go into denial about the seriousness of the problem.

To prevent foreclosure, be decisive and explore all solutions. Contact your lender at the number on your statement at the first sign of trouble—even if you have not missed a payment but you think you might have to in future.

Your lender will make notes about your phone call in your account file.

Reputable lenders and loan servicers should view your contact as an indication that you are committed to fixing the problem rather than avoiding it.

The lender may begin discussing possible solutions to your payment problem. If you have already missed a payment and have not contacted the lender yet, do so immediately.

If your loan is with a predatory or abusive lender, your phone call might not help. However, it will not speed up a foreclosure since your state's law dictates the foreclosure timeline.

If you suspect you have a predatory loan—and especially if you believe you will miss a payment—contact a HUD-approved housing counseling agency or one of the other organizations listed in under [Avoiding foreclosure scams](#).

Prepare for your discussion with your lender or a counselor, by:

1. Recording your income and expenses and
2. Calculate the equity in your home. To figure your equity, estimate the current market value of your home, minus the outstanding balances of your first mortgage and any second mortgage or home equity loan.
3. Then think about and jot down answers to the following questions:
  - **Problem.** What has happened to cause you to miss your mortgage payment(s)?

- Do you have any documents to back up your explanation for falling behind (for example, a doctor's letter or a notice of unemployment benefits)?
- What, if any, efforts have you made to resolve the problem?
- Outlook. Is this problem temporary, or is it long-term or permanent? What changes in your situation do you see in the short term? In the long term?
- Are there other financial issues that might get in the way of getting back on track with your mortgage?
- Solution. What would you like to see happen? Do you want to keep the home? What type of payment arrangement would be feasible for you?
- Commitment. How committed are you to making a solution work? Will you return calls and submit required documentation and forms to the lender on time?

**Throughout the foreclosure prevention process:**

- Keep a folder in which you note all communications with the lender, including type and time of contact, name of representative, and outcome.
- Follow up any oral requests you make with a letter to the lender. Send it to the lender using certified mail so that you can make sure it got there.

- If you ask for a "Return Receipt" you will receive proof of delivery. Keep a copy of your letter.
- Make only promises you are absolutely sure you can keep.
- Meet all deadlines given by the lender.
- Stay in your home during the process, since you may not qualify for certain types of assistance if you move out.
- You can choose to rent out your home, but this will change it from a primary residence to an investment property. This will most likely disqualify you for any additional “workout” assistance from the lender, so be sure that the rental income is enough to help you get and keep your loan current.

### **Housing counseling will help**

You don't have to go through the foreclosure prevention process alone.

A counselor with a HUD-approved housing counseling agency can assess your situation, answer your questions, go over your options, prioritize your debts, and help you prepare for discussions with your lender.

These counseling organizations are approved by the U.S. Department of Housing and Urban Development (HUD) to provide information and counseling in many areas of home buying and homeownership.

Counselors may also be aware of regional or local foreclosure “rescue” funds and aid for temporary hardship.

To find a local HUD-approved housing counseling agency, check [HUD's online directory](#) or call 800-569-4287 (TTY: 800-877-8339).

Many HUD-certified housing counselors are also non-profit credit counseling services.

In addition to foreclosure prevention assistance, they can help analyze your finances, including bills and debt payments and may be able to enroll you in an agency-administered debt management plan that could reduce your monthly payments to other creditors.

As long as the borrowers have not defaulted, credit counseling and a debt management plan may help them get back on track.

Housing and credit counseling services are usually free or low cost.

### **Selling your home**

Not every situation can be resolved through your lender's loss mitigation programs.

If you learn you will not be able to keep your home, or if you don't want to keep it, and you don't have sufficient equity to sell it and pay off your mortgage(s) in full, consider:

- **Assumption of the loan.** If you have an assumable loan (look for a "subject to transfer" clause in your loan agreement), it is conceivable that you could transfer your property to a new buyer who agrees to take over (assume) the existing mortgage. Assumable loans are very rare, so this will be an option for only a small fraction of homeowners.
- **Lender-approved sale.** Your lender might hold off on foreclosure proceedings for an agreed upon time to give you a chance to put your home on the market. Or it might postpone the foreclosure sale if you have a pending sale contract.

- **A short sale.** This is also called a pre-foreclosure sale on FHA loans. The lender may allow you sell the home yourself before it forecloses on the property, agreeing to write off any shortfall between the sale price and the mortgage balance. This enables you to avoid a damaging foreclosure on your credit report. You may face a tax liability on the amount of debt forgiven.
- **Deed in lieu of foreclosure.** You voluntarily transfer your property title to the lender (with the lender's permission) in exchange for cancellation of the remainder of your debt. Though you lose the home, a deed in lieu of foreclosure is less damaging to your credit than a foreclosure. However, you will lose any equity you may have had in the property and you may face an income tax liability on the amount of debt forgiven. A deed in lieu may not be an option for you if there are other loans or liens against the property.

Some states allow lenders to pursue a deficiency judgment, which means that the borrower is personally responsible to repay any remaining balance on the mortgage after a foreclosure sale.

A certified HUD housing counselor can tell you if deficiency judgments are allowed in your state.

If you can predict you'll have serious, irresolvable payment problems in the foreseeable future that could lead to foreclosure, consider selling your home before you go into default.

This works if you have enough equity in the home to pay off the entire loan balance and all expenses associated with selling the home (such as real estate agent fees) from the proceeds of the sale.

Such a sale would allow you to satisfy your mortgage obligation, avoid lender-imposed late and legal fees, avoid any damage to your credit rating and protect what equity you have in the property.

## Avoiding Foreclosure Scams

Once the lender files a “notice of default,” your mortgage troubles become public record.

Scammers, predatory lenders and other con artists keep their eyes open so they can prey on homeowners in trouble.

Here are just a few of the scams and schemes to look out for:

- **Predatory refinance loans.** Unscrupulous lenders often come to the “rescue” with an offer of a loan that will supposedly get you out of financial difficulty and help you keep your home. In reality, many of these loans include terms and fees that are almost guaranteed to get you deeper in debt. When that happens, the lender is often ready to quickly foreclose on your home.
- **Flipping.** These same lenders rake in hefty fees by convincing homeowners to refinance over and over again, even when it is not in their best interest.
- **Foreclosure prevention scams.** These “specialists” and phony counselors, who say they’ll keep you out of foreclosure for a fee, are scammers trying to get your money with no intention of providing the promised services. At the very least, they typically charge high fees for something you could do yourself or with the help of a free or low-cost HUD-approved housing counseling agency.
- **Equity skimming.** Be wary of buyers who contact you out of the blue and offer to pay off your mortgage or sell the home if you deed the property to them. They may even offer to have you rent the home from them. Remember, a mortgage loan always remains in your name until you pay it off or the lender allows another individual to assume the loan. Deeding your property to another person doesn't change this. Equity skimming scams are designed to take advantage of uninformed

homeowners. Often, the victims don't realize they are giving away their property and equity.

If you think that you are being targeted by a predatory lender or other scam artist, contact:

- A [HUD-approved housing counselor](#).
- [NeighborWorks Center for Foreclosure Solutions online](#) or by phone at 888-995-HOPE.
- [The National Anti-Predatory Lending Consumer Rescue Fund](#)
- [The Federal Trade Commission](#)
- Your state's consumer protection office. [Click this link to find your office](#).
- To find attorneys who represent consumers, visit the [National Association of Consumer Advocates](#).

One way to avoid becoming a victim is to talk to a reputable attorney, a trusted real estate professional, or a counselor at a HUD-approved housing counseling agency *before* you pay a fee or sign anything.

### **Dos and don'ts for homeowners facing foreclosure**

#### **Don't:**

- Sign anything that you do not fully understand. If you are unsure, have all documents reviewed by an attorney, a trusted real estate professional, or a counselor at a HUD-approved housing counseling agency.
- Deed your property over to anyone. Signing your home over to someone else does not relieve you of your mortgage obligation.
- Let someone assume the loan without the lender's permission and without their formally releasing you from liability for the mortgage.

- Move out of your house because someone promises to make the mortgage payments for you.

**Do:**

- Be suspicious of anyone who contacts you with a loan or service they promise will solve your money troubles and save your home.
- Avoid high-pressure lenders, or those who encourage you to pay an upfront fee for any service or loan, borrow more than the value of the home, or take on a loan without considering your ability to make the payments.
- Get all terms and promises in writing.
- Be on the lookout for terms that change or are not disclosed at the beginning of the loan process.
- Avoid any refinancing loan with exorbitant fees, a stiff prepayment penalty, an excessively high interest rate, or a balloon payment due. (If you're not sure whether the loan you're being offered includes any of these abusive terms, have someone you trust review them for you.)
- Check for complaints about any company that offers to buy your home. Contact your state's consumer protection office ([click here to find your office](#)) or your state's real estate regulator ([click here to find your regulator](#)).

## **Know your mortgage loans**

You can greatly reduce your risk of defaulting on your mortgage payments and facing foreclosure by choosing the right loan.

The 30-year fixed rate home loan that used to account for most home financing has given way to an array of “exotic” interest-only loans and other non-traditional adjustable rate mortgages.

These loans can be risky and come with complex terms and payment calculations that many borrowers don't fully understand.

### **Protect yourself.**

Learn about different mortgages, their terms, and their risks by participating in a homebuyer education course offered by a [HUD-approved housing counseling agency](#) before you commit to a loan.

If you are already in a mortgage with non-traditional or complicated terms, be sure you understand exactly how your interest rate, monthly payment, and loan principal balance could change over time.

If you don't plan for these adjustments, you could find yourself facing the possibility of foreclosure if you can no longer make the payments.

### **Here are a few popular mortgage types and what you should know about each one:**

**Adjustable Rate Mortgage (ARM).** Any time you have a loan where the interest rate can rise and fall with prevailing rates, your future monthly payment amount is uncertain.

Typically with an ARM, your payment will be based on a relatively low introductory rate.

Depending on the terms of the loan, after several months or a few years, your payment will be adjusted (often upward) on a regular basis.

### **Negative amortization mortgage.**

Negative amortization is what happens when your mortgage payment is smaller than the interest due on the loan for that month.

To make up the shortfall, the lender adds the difference to your loan balance.

Negative amortization loans start out with a reduced monthly payment.

At some point, the lender must “recast” the loan (re-calculate the monthly payments so that the original loan balance plus all unpaid interest is amortized over the remaining years in the loan term).

In other words, you must now pay off a bigger loan in a significantly shorter period (perhaps 20 or 25 years instead of the original 30)—and that requires a significantly larger payment.

If your neg-am loan is also an ARM, and rates have risen since you took out the loan, you might experience even greater negative amortization than you expected.

Another risk with this type of loan is that if you try to sell your home after only a few years and it hasn't appreciated substantially, you could find yourself “upside down,” owing the lender more than you could get for the property.

### **Interest-only mortgage.**

These ARMs allow homeowners to make smaller payments for a number of years at the beginning of the loan (typically 5 or 10) because the part of the payment which would ordinarily pay off the amount you borrowed (principal) is deferred.

Monthly payments increase when the lender recasts the loan to require monthly payments large enough to cover the interest and pay off the entire principal balance in the years remaining on the original loan term.

If interest rates have also risen, the monthly payment will be even higher.

With an interest-only loan, you would not build up any equity unless it came from appreciation, or if you had decided to make additional payments toward the principal during those years when you were not required to.

Equity is the homeowner's financial share of the house.

### **Option ARM.**

These can be called payment option ARMs or flex-ARMs.

As with any ARM, your payments would increase if interest rates go up.

Whether or not your payments eventually go even higher will depend on which payment option you choose for your loan: the minimum payment (typically resulting in negative amortization), an interest-only payment, a fully amortizing 30-year payment or a fully amortizing 15-year payment (choices may vary among lenders, and you can switch at certain times).

Option ARMs have a built in recalculation period, usually every five years.

At that point, the lender will recalculate (recast) your payment. If you have a 30-year loan, your payment will be recalculated over a 25-year period.

No payment cap applies to this adjustment—which means your monthly payment could go up dramatically

## **Bankruptcy Chapter 13 and 7**

### **What you can do when paying the Trustee**

Everything during a Chapter 13 starts with your bankruptcy trustee.

You need to find out what they will allow you to do.

Each state (and every trustee) is different in what they will and will not allow. That's the not-so-fun part, but before you go straight to your trustee, my advice would be to run the idea by your bankruptcy attorney.

He/she should act as a sounding board to determine if your idea has merit (i.e., you need a new car, bigger house, credit card, etc.) and if it's something the trustee might allow.

By first going to your bankruptcy attorney, he may be able to give you some advice that will help you present a stronger case to your trustee. Remember, it's usually about numbers, not emotion.

### **Can I Purchase a New Home while in a Chapter 13 Bankruptcy?**

Yes, if your trustee allows. There's the trustee to contact again.

First of all, you need to know that your options are limited.

FHA and VA will allow you to purchase a home while you're still in a Chapter 13 bankruptcy, but for the most part all other lenders won't touch this until you're discharged or your Chapter 13 bankruptcy is paid.

If you want to get approved for an FHA or VA mortgage, these programs require:

1. That you've been in your plan at least 12 months
2. You've made all of your trustee payments on time
3. You qualify for the monthly mortgage payment

4. Your monthly debt-to-income ratio must be less than 43%—if it's more, you'll need to wait until you either reduce your monthly debt or you're within 10 months of paying off any installment debt.

For example, let's say your annual income is \$60,000. That breaks down to \$5,000 a month. Multiply \$5,000 x .43 and you get \$2,150. Your total monthly debt in this example could not exceed \$2,150 per month. "Debt" would include:

1. Mortgage payment
2. Monthly property taxes
3. Homeowner's insurance
4. Car loans
5. Student loans
6. Other installment loans
7. Your trustee payment

Am I the only one who thinks it's odd that a debtor's payment to their trustee can actually be used by lenders to reestablish credit?

Your revolving debt is also figured into your debt-to-income ratio. There is a glimmer of hope though...only the minimum monthly payment is calculated on revolving accounts (such as credit card accounts).

### **Now let's talk loan amounts.**

With a VA loan, the maximum loan amount on a purchase is \$417,000 nationwide.

The maximum loan amount from FHA varies by county. You can go [here](#) for more information about your county's maximum loan amount on the purchase of a home.

## Using Equity in Your Home to Pay Off Your Chapter 13 Bankruptcy and Get Discharged Sooner

If you have equity in your home, it may make sense to use it to accelerate your discharge.

If your trustee approves, a skilled mortgage banker can tap the equity in your home through refinancing to pay off a Chapter 13 bankruptcy early. It could speed up your recovery.

FHA will refinance up to 95% of your home's value (less your mortgage balance) as long as you meet the 4 qualifications mentioned above. Any mortgage financing other than FHA or VA will require you to pay off your Chapter 13 bankruptcy before having access to your equity.

Then there's Texas. The only way you're gettin' your equity in this State is if you sell the House.

Trustees nationwide are becoming more stringent about allowing filers to pay off a Chapter 13 bankruptcy early.

The potential glitch is each state views paying off a Chapter 13 bankruptcy early differently. Some states will allow it after 36 months in your plan...others require you pay the entire debt of what is owed to your creditors. Yes, I said entire debt, not just the balance on your plan.

It's best to discuss these options with your bankruptcy attorney to assess what is acceptable in your state. If you can get your trustee's approval, then contact your mortgage lender to proceed.

### **ANOTHER OPTION FOR REFINANCING A HOME.**

If you've been paying on your Chapter 13 bankruptcy for less than 12 months or have a delinquent payment history—a non-conforming refinance is another option.

Late mortgage payments or late trustee payments will affect your interest rate and how much they'll loan based on your home value.

The interest rate and amount a lender will loan is based on.

- Your Chapter 13 payment history
- Your mortgage payment history
- Your middle FICO credit score

### **Can you finance a car while in a Chapter 13 bankruptcy?**

Yes, but it won't be through a mainstream lender at a normal interest rate. Until you're discharged, financing a car will be expensive.

You'll be forced to accept some high interest rates. Either pay cash for a car, or drive an Ugly Duckling rental car before paying a double-digit interest rate on a car.

### **Credit Cards During your Chapter 13 Bankruptcy!**

When it comes to credit cards, you have a choice between applying for a secured or unsecured credit card.

"Unsecured" basically means that there are no assets guaranteeing your credit card. This is more risky for lenders because if you default, there's no way for them to recoup their loss.

An unsecured credit card will be extremely difficult to get before you're discharged...if not impossible.

As a side note always have a Plan A and a Plan B so you won't be caught.

So, since Plan A (an unsecured credit card) is probably out of reach for you at the moment, here's your Plan B.....a secured credit card.

A secured credit card is very similar to an unsecured credit card. The only difference is that you must put money on deposit and the amount of your deposit becomes your credit limit. The money you have on deposit allows the lender to recover their money if you default.

For example, let's say you put a \$500 deposit on an unsecured credit card. This means you can charge up to \$500 on the card. If by chance you do charge \$500 on the card, and you don't pay your bill, the card company keeps your deposit—and you won't be able to use the card anymore.

The deposit acts as a safety net for the card issuer. Believe it or not, even these types of credit cards can be difficult for Chapter 13 bankruptcy filers to acquire before they are discharged.

Here are the credit guidelines of the secured bankcard program recommended for Chapter 13 Filers:

- They don't care if your bankruptcy is discharged. That means, if you have an open Chapter 13 bankruptcy it doesn't matter. As long as your check clears...and they can verify you're a U.S. citizen...your approval is guaranteed.
- The annual percentage rate (APR) is 21.60% and is a competitive APR for a secured card.
- Their annual fee of \$20 is better than some unsecured card programs.
- There is no universal default clause. A universal default clause means that a lender can raise your rates simply because you missed payments with some other lender. This bank will not do this.
- Their minimum deposit is \$500. A little higher than I would prefer, but not out of reach for most people who file Chapter 13.
- Their maximum deposit is \$5,000. This is great because with most secured card programs you can't efficiently use the card because you tend to get too close to the credit limit (maxing it out), which lowers your FICO credit scores.
- They will pay you .5% interest on your security deposit. This means that when your card converts to an unsecured card, you will get a check for more than you started with. Sweet!

- They can convert the card to unsecured and return your deposit after 24 months of on-time payments.
- They do review your credit reports, so there will be a credit inquiry.

## **The 4 Most Important Actions to Take During Your Chapter 13 Bankruptcy**

Even if you're not discharged yet, there are steps you can take now to improve your credit rating. The four most important things you can do are:

1. Dispute inaccurate information appearing on your credit reports. Do this yourself or hire someone to do it for you.
2. Learn how to manage your credit differently to increase your credit scores. These are actions that you must do yourself.
3. Continue to make your Chapter 13 bankruptcy payments on time. Here's why...lenders can use your trustee payments to show a good payment history.
4. If possible, pay off your Chapter 13 bankruptcy sooner. You'll recover faster.

Using these strategies while you're still in your Chapter 13 bankruptcy will put you well ahead of the crowd that does nothing to improve their credit while in bankruptcy.

With higher FICO credit scores, once you're discharged you'll hit the ground running...while others will hit the ground crawling...or limping.

The difference between you and them was that you began increasing your credit scores.

## **Converting Your Chapter 13 Bankruptcy into a Chapter 7**

Whether you should convert your Chapter 13 bankruptcy is really a question for your attorney.

A "conversion" is when you switch an existing type of bankruptcy to another.

In this case, you'd be converting a Chapter 13 bankruptcy to a Chapter 7 bankruptcy.

A conversion is not the same as having your Chapter 13 bankruptcy dismissed then filing a Chapter 7. That's actually two different bankruptcies.

These are the things I'd consider if I was thinking about converting to a Chapter 7 bankruptcy:

1. How much longer do I have until I finish my Chapter 13 payment plan?
2. Can I afford the monthly payment as it is now?
3. Can I finish my payment plan?
4. What does my bankruptcy attorney advise me to do?
5. What will I lose by converting to a Chapter 7 bankruptcy?
6. What will I gain by converting to a Chapter 7 bankruptcy?

You see, from a credit scoring perspective, having one bankruptcy appear on your credit reports is the equivalent of an atomic bomb. Converting to a Chapter 7 bankruptcy could be the equivalent of two atomic bombs.

However, having said that, time can heal most things. And depending on your specific circumstances, it can sometimes make sense to convert—especially if you're very proactive about your recovery.

**Many People Convert from Chapter 13 Bankruptcy to Chapter 7**

According to a famous study done by Elizabeth Warren in her book, *The Fragile Middle Class: Americans in Debt*—about 1-in-3 Chapter 13 filers convert to a Chapter 7.

I think the conversion rate is much higher...probably two-thirds of Chapter 13s convert.

Many lenders consider a conversion the same as two bankruptcies. So you double the damage.

In addition, there may be things you wanted to keep that go bye-bye when you convert to a Chapter 7 bankruptcy.

For advice specific to your situation, talk with a bankruptcy attorney.

There is one type of lender that doesn't view a conversion as two bankruptcies...mortgage lenders. They are the only lenders lenient toward converted bankruptcies.

The good news is: should you decide to convert, you can still recover from bankruptcy.

## **Summary of what we have learned!**

### **Sterling Credit Restoration Restores Credit.**

Our Motto above Explains who we are and what we do. We do not just want to put a patch on your Credit Rating that anyone can see, but actually make your Credit Rating new.

The banks will then be more willing to give you the loans you need to have a normal car, a normal house, basically a normal Life.

Sterling Credit Restoration can help get your credit get back in shape. But you have to start working on it today -- and keep working hard to show potential creditors that you're serious about getting your credit back in order.

As you do so, your credit score will improve, resulting in better credit offers and a substantial savings in money.

### **Late Payments and Pre-Foreclosures**

#### **What happens when I miss my mortgage payments?**

4. If your late 30 days your Credit score goes down to 93%
5. If your late 60 days the Credit Score goes to 90%
6. After ninety days the credit score goes to 87%

Never letters from your lender.

Call or write the lender without delay if you miss a payment.

Explain your situation and be prepared to provide them with financial information, such as monthly income, and expenses, or the reason you were late.

They may be able to help if you disclose all information.

### **Precautions you should take**

Here are several precautions that should help you avoid being "taken" by a scam:

6. Never sign papers you do not fully understand.
7. Get all "promises" in writing.
8. Beware of any loan assumption where you are not formally released from liability for your mortgage debt and contracts of sale.
9. Check with an Attorney or your Mortgage Company before entering any deal with your home.
10. If you are selling the house yourself to avoid foreclosure, make sure you check to see if there are any complaints against the prospective buyer.

You can contact your state's Attorney General, the State Real Estate Commission, or the local District Attorney's Consumer Fraud Unit for this type of information.

Do a Pre-foreclosure sale if you have exhausted every other option.

This will allow you to sell your property and pay off your mortgage loan to avoid foreclosure and damage to your credit rating.

You may qualify if:

- 2) The "as is" appraised value is at least 70% of the amount you owe and the sales price is 95% of the appraised value,
- 2) The loan is at least 2 months delinquent prior to the pre-foreclosure sale
- 3) you are able to sell your house within 3 to 5 months

An additional benefit to this option is the assistance you will receive with the Seller-paid closing costs.

## **Foreclosure and What it means to You**

**You could easily find yourself in a position where you cannot make one or more full mortgage payments for a variety of reasons, including:**

- Unplanned expenses or a loss of income: An emergency car or home repair or unexpected medical bills can leave you short of funds to pay your other bills.
- A long-term or permanent loss of income due to a layoff, a reduction in overtime hours, a divorce, or an injury or illness that keeps you away from work could affect your ability to make your full mortgage payment not just this month, but for many months.
- A home loan that requires a large increase in monthly payments: More than ever, borrowers are in loans that are structured so that at some point (often between one and five years after you make the first payment) the required monthly mortgage payment goes up significantly.
- Depending on the loan terms and prevailing interest rates at the time the rate adjusts or “resets,” your monthly payment can increase by many hundreds of dollars.

- Predatory loan terms: A predatory loan includes unfair or deceptive terms, high rates and costly fees, payment requirements that the lender knows will be difficult for you to meet, or features that get you deeper into debt and strip your equity. Since these loans are often unaffordable from the outset, the risk of foreclosure is very great.
- By some estimates, one in five homeowners are at risk of losing their homes due to these types of loans. Despite your best efforts to plan for emergencies, prepare for higher payments and avoid abusive lenders, you may still find yourself in default (missing one or more payments). If that happens, you may still save your home from foreclosure by understanding your options and taking the appropriate steps.

## **Keeping your home**

Many homeowners believe that all lenders are eager to foreclose and take possession of their property.

The predatory or abusive lenders may intentionally lend money with the goal of pursuing foreclosure and repossessing the home.

Legitimate mortgage lenders prefer to receive your loan payments, and will foreclose only as a last resort because it is a costly and time-consuming process.

Lenders are required to explore options to keep borrowers in their homes.

This means your lender may offer special “loss mitigation” programs to help committed borrowers avoid foreclosure.

## **Dos and don'ts for homeowners facing foreclosure**

### **Don't:**

- Sign anything that you do not fully understand. If you are unsure, have all documents reviewed by an attorney, a trusted real estate professional, or a counselor at a HUD-approved housing counseling agency.
- Deed your property over to anyone. Signing your home over to someone else does not relieve you of your mortgage obligation.
- Let someone assume the loan without the lender's permission and without their formally releasing you from liability for the mortgage.
- Move out of your house because someone promises to make the mortgage payments for you.

**Do:**

- Be suspicious of anyone who contacts you with a loan or service they promise will solve your money troubles and save your home.
- Avoid high-pressure lenders, or those who encourage you to pay an upfront fee for any service or loan, borrow more than the value of the home, or take on a loan without considering your ability to make the payments.
- Get all terms and promises in writing.
- Be on the lookout for terms that change or are not disclosed at the beginning of the loan process.
- Avoid any refinancing loan with exorbitant fees, a stiff prepayment penalty, an excessively high interest rate, or a balloon payment due. (If you're not sure whether the loan you're being offered includes any of these abusive terms, have someone you trust review them for you.)

- Check for complaints about any company that offers to buy your home. Contact your state's consumer protection office ([click here to find your office](#)) or your state's real estate regulator ([click here to find your regulator](#))

## **Bankruptcy Chapter 13 and 7**

Each state (and every trustee) is different in what they will and will not allow. That's the not-so-fun part, but before you go straight to your trustee, my advice would be to run the idea by your bankruptcy attorney.

### **The 4 Most Important Actions to Take During Your Chapter 13 Bankruptcy**

Even if you're not discharged yet, there are steps you can take now to improve your credit rating. The four most important things you can do are:

5. Dispute inaccurate information appearing on your credit reports. Do this yourself or hire someone to do it for you.
6. Learn how to manage your credit differently to increase your credit scores. These are actions that you must do yourself.
7. Continue to make your Chapter 13 bankruptcy payments on time. Here's why...lenders can use your trustee payments to show a good payment history.
8. If possible, pay off your Chapter 13 bankruptcy sooner. You'll recover faster.

These are the things I'd consider if I was thinking about converting to a Chapter 7 bankruptcy:

7. How much longer do I have until I finish my Chapter 13 payment plan?

8. Can I afford the monthly payment as it is now?
9. Can I finish my payment plan?
10. What does my bankruptcy attorney advise me to do?
11. What will I lose by converting to a Chapter 7 bankruptcy?
12. What will I gain by converting to a Chapter 7 bankruptcy?

You see, from a credit scoring perspective, having one bankruptcy appear on your credit reports is the equivalent of an atomic bomb. Converting to a Chapter 7 bankruptcy could be the equivalent of two atomic bombs.

However, having said that, time can heal most things. And depending on your specific circumstances, it can sometimes make sense to convert—especially if you're very proactive about your recovery.

Here are the credit guidelines of the secured bankcard program recommended for Chapter 13 Filers:

- They don't care if your bankruptcy is discharged. That means, if you have an open Chapter 13 bankruptcy it doesn't matter. As long as your check clears...and they can verify you're a U.S. citizen...your approval is guaranteed.
- The annual percentage rate (APR) is 21.60% and is a competitive APR for a secured card.
- Their annual fee of \$20 is better than some unsecured card programs.
- There is no universal default clause. A universal default clause means that a lender can raise your rates simply because you missed payments with some other lender. This bank will not do this.
- Their minimum deposit is \$500. A little higher than I would prefer, but not out of reach for most people who file Chapter 13.
- Their maximum deposit is \$5,000. This is great because with most secured card programs you can't efficiently use the card because you tend to get too close to the credit limit (maxing it out), which lowers your FICO credit scores.

- They will pay you .5% interest on your security deposit. This means that when your card converts to an unsecured card, you will get a check for more than you started with. Sweet!
- They can convert the card to unsecured and return your deposit after 24 months of on-time payments.
- They do review your credit reports, so there will be a credit inquiry.

## Glossary of Terms

**Actual Cash Value:** An amount equal to the replacement value of damaged property minus depreciation.

**Adjustable-Rate Mortgage (ARM):** Also known as a variable-rate loan, an ARM usually offers a lower initial rate than a fixed-rate loan. The interest rate can change at a specified time, known as an adjustment period, based on a published index that tracks changes in the current finance market. Indexes used for ARMs include the LIBOR index and the Treasury index. ARMs also have caps or a maximum and minimum that the interest rate can change at each adjustment period.

**Adjustment Period:** The time between interest rate adjustments for an ARM. There is usually an initial adjustment period, beginning from the start date of the loan and varying from 1 to 10 years. After the first adjustment period, adjustment periods are usually 12 months, which means that the interest rate can change every year.

**Amortization:** Paying off a loan over the period of time and at the interest rate specified in a loan document. The amortization of a loan includes the payment of interest and a part of the amount borrowed in each mortgage payment.

**Amortization Schedule:** Provided by mortgage lenders, the schedule shows how over the term of your mortgage the principal portion of the mortgage payment increases and the interest portion of the mortgage payment decreases.

**Annual Percentage Rate (APR):** How much a loan costs annually. The APR includes the interest rate, points, broker fees and certain other credit charges a borrower is required to pay.

**Application Fee:** The fee that a mortgage lender charges to apply for a mortgage to cover processing costs.

**Appraisal:** A professional analysis used to estimate the value of the property. This includes examples of sales of similar properties.

**Appraiser:** A professional who conducts an analysis of the property, including examples of sales of similar properties in order to develop an estimate of the value of the property. The analysis is called an "appraisal."

**Appreciation:** An increase in the market value of a home due to changing market conditions and/or home improvements.

**Arbitration:** A process where disputes are settled by referring them to a fair and neutral third party (arbitrator). The disputing parties agree in advance to agree with the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator makes a decision.

**Asbestos:** A toxic material that was once used in housing insulation and fireproofing. Because some forms of asbestos have been linked to certain lung diseases, it is no longer

used in new homes. However, some older homes may still have asbestos in these materials.

**Assets:** Everything of value an individual owns.

**Assumption:** A homebuyer's agreement to take on the primary responsibility for paying an existing mortgage from a home seller.

**Balloon Mortgage:** A mortgage with monthly payments based on a 30-year amortization schedule, with the unpaid balance due in a lump sum payment at the end of a specific period of time (usually 5 or 7 years). The mortgage contains an option to "reset" the interest rate to the current market rate and to extend the due date if certain conditions are met.

**Bankruptcy:** Legally declared unable to pay your debts. Bankruptcy can severely impact your credit and your ability to borrow money.

**Capacity:** Your ability to make your mortgage payments on time. This depends on your income and income stability (job history and security), your assets and savings, and the amount of your income each month that is left over after you've paid for your housing costs, debts and other obligations.

**Closing (Closing Date):** The completion of the real estate transaction between buyer and seller. The buyer signs the mortgage documents and the closing costs are paid. Also known as the settlement date.

**Closing Agent:** A person who coordinates closing-related activities, such as recording the closing documents and disbursing funds.

**Closing Costs:** The costs to complete the real estate transaction. These costs are in addition to the price of the home and are paid at closing. They include points, taxes, title insurance, financing costs, items that must be prepaid or escrowed and other costs. Ask your lender for a complete list of closing cost items.

**Collateral:** Property which is used as security for a debt. In the case of a mortgage, the collateral would be the house and property.

**Commitment Letter:** A letter from your lender stating the amount of the mortgage, the number of years to repay the mortgage (the term), the interest rate, the loan origination fee, the annual percentage rate and the monthly charges.

**Concession:** Something given up or agreed to in negotiating the sale of the house. For example, the sellers may agree to help pay for closing costs.

**Condominium:** A unit in a multiunit building. The owner of a condominium unit owns the unit itself and has the right, along with other owners, to use the common areas but does not own the common elements such as the exterior walls, floors and ceilings or the structural systems outside of the unit; these are owned by the condominium association. There are usually condominium association fees for building maintenance, property upkeep, taxes and insurance on the common areas and reserves for improvements.

**Contingency:** A plan for something that may occur but is not likely. For example, your offer may be contingent on the home passing a home inspection. If the home does not pass inspection, you're protected.

**Counter-offer:** An offer made in response to a previous offer. For example, after the buyer presents their first offer, the seller may make a counter-offer with a slightly higher sale price.

**Credit:** The ability of a person to borrow money, or buy good by paying over time. Credit is extended based on a lender's good opinion of the person's financial situation and reliability.

**Credit Bureau:** A company that gathers information on consumers who use credit. These companies sell that information to credit lenders in the form of a credit report.

**Credit History:** A record of credit use comprised of a list of individual consumer debts and a record of whether or not these debts were paid back on time or "as agreed." Credit institutions have created a detailed document of your credit history called a credit report.

**Credit Report:** A document used by the credit industry to examine your use of credit. It provides information on money that you've borrowed from credit institutions and your payment history.

**Credit Score:** A computer-generated number that summarizes your credit profile and predicts the likelihood that you'll repay future debts.

**Creditworthy:** Your ability to qualify for credit and repay debts.

**Debt:** Money owed from one person or institution to another person or institution.

**Debt-to-Income Ratio:** The percentage of gross monthly income that goes toward paying for your monthly housing expense, alimony, child support, car payments and other installment debts, and payments on revolving or open-ended accounts such as credit cards.

**Deed:** The legal document transferring ownership or title to a property

**Deed of Trust:** A legal document in which the borrower transfers the title to a 3rd party (trustee) to hold as security for the lender. When the loan is paid in full the trustee transfers title back to the borrower. If the borrower defaults on the loan the trustee will sell the property and pay the lender the mortgage debt.

**Default:** Failure to fulfill a legal obligation. A default includes failure to pay on a financial obligation, but may also be a failure to perform some action or service that is non-monetary. For example, when leasing a car, the lessee is usually required to properly maintain the car.

**Depreciation:** A decline in the value of a house due to changing market conditions or lack of upkeep on a home.

**Down Payment:** A portion of the price of a home, usually between 3-20%, not borrowed and paid up front.

**Earnest Money Deposit:** The deposit to show that you're committed to buying the home. The deposit will not be refunded to you after the seller accepts your offer, unless one of the sales contract contingencies is not fulfilled.

**Equity:** The value in your home above the total amount of the liens against your home. If you owe \$100,000 on your house but it is worth \$130,000, you have \$30,000 of equity.

**Escrow:** The holding of money or documents by a neutral third party before closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

**Fixed-Rate Mortgage:** A mortgage with an interest rate that does not change during the entire term of the loan.

**Foreclosure:** A legal action that ends all ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

**Gift Letter:** A letter that a family member writes verifying that s/he has given you a certain amount of money as a gift and that you don't have to repay it. You can use this money towards a portion of your down payment with some mortgages.

**Good-Faith Estimate:** A written statement from the lender itemizing the approximate costs and fees for the mortgage.

**Gross Monthly Income:** The income you earn in a month before taxes and other deductions. It may also include rental income, self-employed income, income from alimony, child support, public assistance payments, and retirement benefits.

**Home Inspection:** A professional inspection of a home to determine the condition of the property. The inspection should include an evaluation of the plumbing, heating and cooling systems, roof, wiring, foundation and pest infestation.

**Homeowner's Insurance:** A policy that protects you and the lender from fire or flood, which damages the structure of the house; a liability, such as an injury to a visitor to your home; or damage to your personal property, such as your furniture, clothes or appliances

**Housing Expense Ratio:** The percentage of your gross monthly income that goes toward paying for your housing expenses.

**HUD-1 Settlement Statement:** A final listing of the costs of the mortgage transaction. It provides the sales price and down payment, as well as the total settlement costs required from the buyer and seller.

**Index:** The published index of interest rates used to calculate the interest rate for an ARM. The index is usually an average of the interest rates on a particular type of security such as the LIBOR.

**Individual Retirement Account (IRA):** A tax-deferred plan that can help you build a retirement nest egg.

**Inflation:** An increase in prices.

**Inquiry:** A request for a copy of your credit report. An inquiry occurs every time you fill out a credit application and/or request more credit. Too many inquiries on a credit report can hurt your credit score.

**Interest:** The cost you pay to borrow money. It is the payment you make to a lender for the money it has loaned to you. Interest is usually expressed as a percentage of the amount borrowed.

**Keogh Funds:** A tax-deferred retirement-savings plan for small business owners or self-employed individuals who have earned income from their trade or business. Contributions to the Keogh plan are tax-deductible.

**Liabilities:** Your debts and other financial obligations.

**Lien:** A claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you don't make the mortgage payments.

**Loan Origination Fees:** Fees paid to your mortgage lender for processing the mortgage application. This fee is usually in the form of points. One point equals 1% of the mortgage amount.

**Lock-In Rate:** A written agreement guaranteeing a specific mortgage interest rate for a certain amount of time.

**Low-Down-Payment Feature:** A feature of some mortgages, usually fixed-rate mortgages, that helps you buy a home with as little as a 3% down payment.

**Margin:** A percentage added to the index for an ARM to establish the interest rate on each adjustment date.

**Market Value:** The current value of your home based on what purchaser would pay. An appraisal is sometimes used to determine market value.

**Mortgage:** A loan using your home as collateral. In some states the term mortgage is also used to describe the document you sign [to grant the lender a lien on your home]. It may also be used to indicate the amount of money you borrow, with interest, to purchase your house. The amount of your mortgage is usually the purchase price of the home minus your down payment.

**Mortgage Broker:** An independent finance professional who specializes in bringing together borrowers and lenders to complete real estate mortgages.

**Mortgage Insurance (MI or PMI):** Insurance needed for mortgages with low down payments (usually less than 20% of the price of the home).

**Mortgage Lender:** The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

**Mortgage Rate:** The cost or the interest rate you pay to borrow the money to buy your house.

**Mutual Funds:** A fund that pools the money of its investors to buy a variety of securities.

**Net Monthly Income:** Your take-home pay after taxes. It is the amount of money that you actually receive in your paycheck.

**Offer:** A formal bid from the homebuyer to the home seller to purchase a home.

**Open House:** When the seller's real estate agent opens the seller's house to the public. You don't need a real estate agent to attend an open house.

**Points:** 1% of the amount of the mortgage loan. For example, if a loan is made for \$50,000, one point equals \$500.

**Pre-Approval Letter:** A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you're a serious buyer.

**Predatory Lending:** Abusive lending practices that include making mortgage loans to people who do not have the income to repay them or repeatedly refinancing loans, charging high points and fees each time and "packing" credit insurance onto a loan.

**Pre-Qualification Letter:** A letter from a mortgage lender that states that you're pre-qualified to buy a home, but does not commit the lender to a particular mortgage amount.

**Principal:** The amount of money borrowed to buy your house or the amount of the loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you've repaid.

**Private Mortgage Insurance:** See Mortgage Insurance

**Property Appreciation:** See Appreciation

**Radon:** A toxic gas found in the soil beneath a house that can contribute to cancer and other illnesses.

**Rate Cap:** The limit on the amount an interest rate on an ARM can increase or decrease during an adjustment period.

**Ratified Sales Contract:** A contract that shows both you and the seller of the house have agreed to your offer. This offer may include sales contingencies, such as obtaining a mortgage of a certain type and rate, getting an acceptable inspection, making repairs, closing by a certain date, etc.

**Real Estate Professional:** An individual who provides services in buying and selling homes. The real estate professional is paid a percentage of the home sale price by the seller. Unless you've specifically contracted with a buyer's agent, the real estate professional represents the interest of the seller. Real estate professionals may be able to refer you to local lenders or mortgage brokers, but are generally not involved in the lending process.

**Refinance:** Getting a new mortgage with all or some portion of the proceeds used to pay off the original mortgage.

**Replacement Cost:** The cost to replace damaged personal property without a deduction for depreciation.

**Securities:** A financial form that shows the holder owns a share or shares of a company (stock) or has loaned money to a company or government organization (bond).

**Title:** The right to, and the ownership of, property. A title or deed is sometimes used as proof of ownership of land.

**Title Insurance:** Insurance that protects lenders and homeowners against legal problems with the title.

**Truth-In-Lending Act (TILA):** Federal law that requires disclosure of a truth-in-lending statement for consumer loans. The statement includes a summary of the total cost of credit, such as the APR and other specifics of the loan.

**Underwriting:** The process a lender uses to determine loan approval. It involves evaluating the property and the borrower's credit and ability to pay the mortgage.

**Uniform Residential Loan Application:** A standard mortgage application your lender will ask you to complete. The form requests your income, assets, liabilities, and a description of the property you plan to buy, among other things.

**Warranties:** Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge.

