Your Credit, Your Home, and Your Future

CreditSmart®

A Guide to Better Credit, Money Management,
and Responsible Homeownership

Freddie Mac

We make home possible®

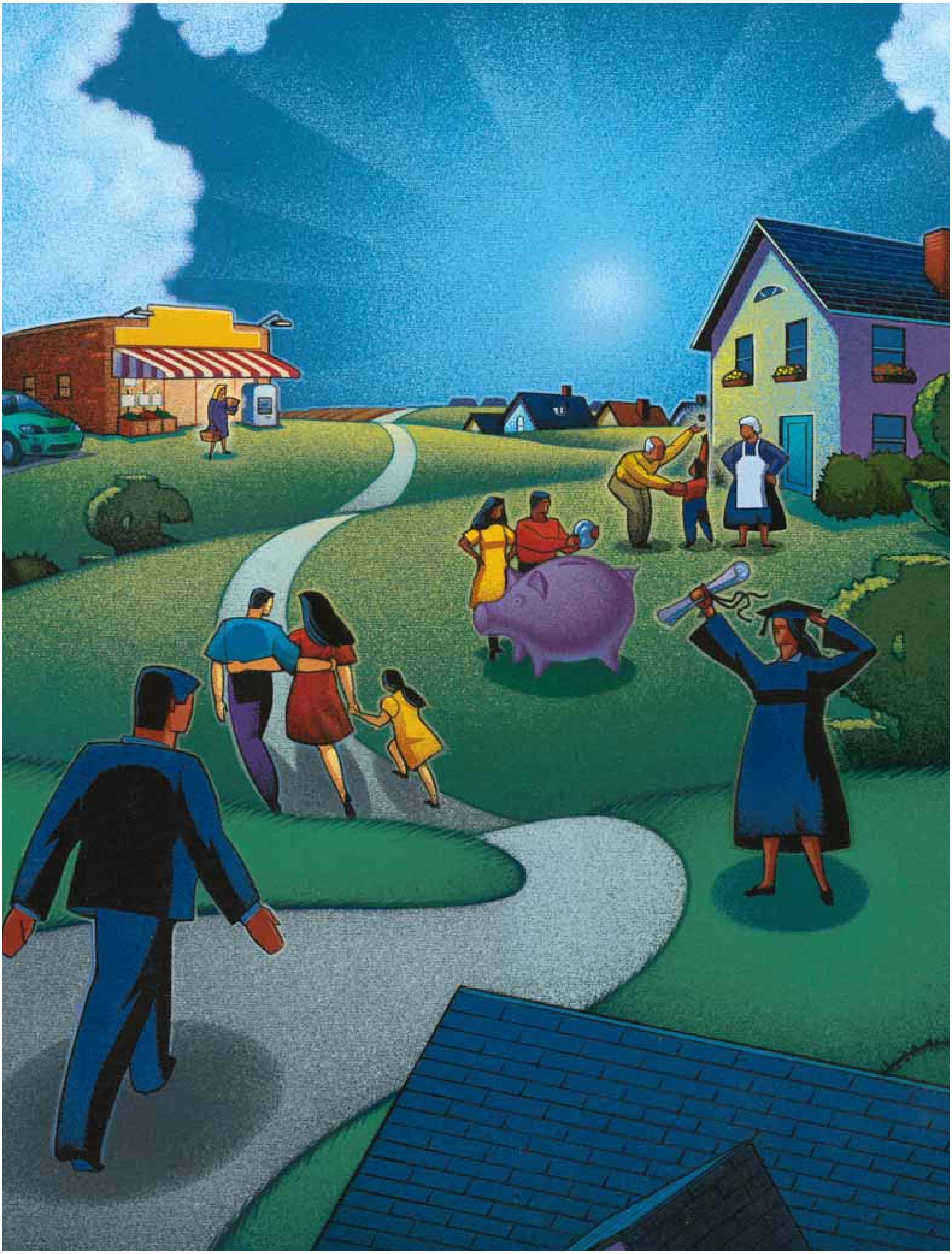
About Freddie Mac

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of homeownership and rental housing. Freddie Mac purchases mortgages from lenders and packages them into securities that are sold to investors. Over the years, Freddie Mac has opened doors for one in six homebuyers in America.

Your Credit, Your Home, and Your Future is excerpted from ***CreditSmart®***, a comprehensive consumer financial literacy curriculum developed by Freddie Mac in partnership with various local and national nonprofit organizations.

Your Credit, Your Home, and Your Future

Contents



Your Credit, Your Home, and Your Future

An Abridged Version of CreditSmart®, a Guide to Better Credit, Money Management, and Responsible Homeownership

If you're like many individuals, you don't fully appreciate how essential good credit and money management are until you need them.

Perhaps you've been renting an apartment for several years, but now you'd like to buy a house. Maybe it's just not worth fixing your 10-year-old car, but you need a way to get to work so you need a car loan—fast! Or suppose your house has a damaged roof and the cost of repairs exceeds your savings. To resolve emergency situations like these while continuing to manage your existing financial obligations, you'll need good credit and good money management skills.

Good credit is the result of careful planning of your finances. Your credit record affects everything from renting an apartment to buying a home. Without good credit, it's difficult to save money, become a homeowner, and build financial security.

That's why this guide is so essential; and that's why Freddie Mac, a company dedicated to opening doors to homeownership for millions of families across the United States, is bringing you this guide. Freddie Mac recognizes how important it is for consumers to have the information and the tools that will help them achieve their financial goals and dreams, including the dream of homeownership.

It is our sincere hope that the valuable information contained within will empower you to take immediate control of your financial future. Remember, the decisions you make ***today*** will impact your financial future tomorrow and for years to come. Use this guide to take that next step to achieve your goals and build financial security.

Stay on Course

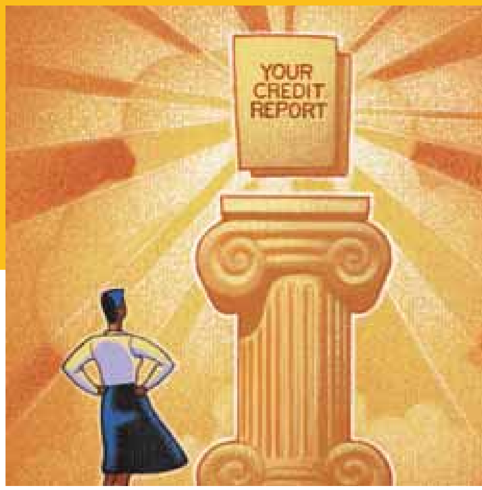
Good Credit Helps You Achieve Your Short- and Long-Term Goals

Short-Term Goals

- Renting a place to live.
- Opening a checking account at a financial institution.
- Getting a new job (which may require a credit check).
- Establishing utility services in your name (e.g.: electricity, heating, water, telephone, etc.).
- Making a major purchase, such as a car or furniture.
- Keeping your other rates low (such as auto and homeowner's insurance).

Long-Term Goals

- Renting a better dwelling than the current one.
- Going back to school or college.
- Saving more money.
- Buying a car.
- Buying a home of your own.
- Starting a business.
- Investing for your future.



Your Credit and Why It Is Important

*Credit is the ability to borrow **tomorrow's** money to pay for something you get **today**, such as a home, furniture, or car, under an agreement to pay it back. From the time that you receive your goods to the time that you pay for them, you owe a debt.*

Credit is extended through several means, including credit cards, personal loans, car loans, and home mortgages. You get credit based on how you have managed your money and credit in the past.

Your Credit History

Your credit history shows how you've managed your finances and repaid your debts over time. Your personal credit report—a listing of the information in your credit history—begins the first time you apply for credit. From that point on, each time you apply for a credit card or loan, information is added to your credit report.

The most important component of your credit report is whether you make your payments on time. Any time that your credit report shows a late payment—30 days, 60 days, or 90 days—a "red flag" is raised and you may be denied credit or pay more to get it.

Why a Good Credit History Is Important

A good credit history increases the confidence of those in a position to loan you money, like lenders and creditors. When they see that you have paid back your loan when and how you agreed, lenders are more likely to extend credit again. You will be seen as fulfilling your agreement. With good credit, you can borrow for major expenses, such as a car, home, or education, and you can borrow money at a lower cost.

Stay on Course

What Hurts Your Credit History

The primary reason that people do not maintain good credit is because they are late with their payments or they do not repay their debts. The most common causes of late payments and inability to pay are:

- Limited income
- Emergencies and/or medical bills
- Financial overextension
- Divorce or separation
- Loss of job

Generally speaking, the better your credit, the lower the cost of obtaining that credit, usually in the form of interest rates and fees. That means, you'll have more available for savings and spending. Lenders will have more confidence in your ability and commitment to repay the loan on time and in full.

Conversely, if your credit history is not strong, you'll probably pay higher interest rates and fees and have less money available for savings and spending. You could end up being short on money and playing "catch-up," juggling between payments on several bills. Over time, higher rates and fees translate into the loss of literally thousands of dollars of potential savings.

The rate you'll pay on a loan is usually determined by your credit report and credit score. (For more information on your credit score, see Lesson 6, *Understanding Credit Scoring.)* Lenders typically make "A" loans for people with good to excellent credit, or who have made payments as agreed for the last 24 months. These loans generally have the lowest interest rate. Lenders make "B" or "C"—or "subprime" loans—for people with past or current credit problems, such as late payments. These loans usually carry higher interest rates.

For Example

If you have good credit: A $125,000 home mortgage at 7% for 30 years costs $831.63 per month for principal and interest. After making all 360 of the payments (12 months times 30 years), the total paid is $299,386.12.

If your credit is impaired: A $125,000 home mortgage at 12% for 30 years costs $1,285.77 per month for principal and interest. After making all 360 of the payments (12 months times 30 years), the total paid is $462,875.66.

The difference: That's a difference of $163,488.86 in additional interest you will pay over the life of the 30-year mortgage if your credit is impaired and you're charged a higher interest rate on your mortgage.

How to Establish a Good Credit History

The key to establishing a good credit history is honoring your promise to repay loans or credit cards as agreed—on time and in the amounts scheduled.

Failure to do so will make it difficult and costly for you to borrow money for the things that you need for yourself and your family, including a home, an education, or medical care.

Even though your intentions may be good, events may occur—such as medical emergencies or losing a job—that impact your ability to repay your loans. That's why it's critical to set up and contribute regularly to a savings plan. By doing this, you will have funds available to honor your credit agreements in spite of unforeseen challenges.

Remember that even if an emergency is the reason for your late payment or delinquent account, it can be reported to the credit reporting agency.

If you do not have credit, rarely borrow money, or use a credit card, consider applying for one or two cards to establish some credit. Shop around and review the interest rates and fees. Use the credit cards carefully, paying off the debt each month. You should also keep your overall debt at a reasonable level relative to your income. Generally speaking, your expenses should not exceed more than 20% of your take-home net pay, excluding a house payment.

Remember—credit is a privilege! The ability to borrow money at reasonable terms and rates cannot be taken for granted or assumed.

Stay on Course

Tips for Maintaining Good Credit

Before taking on additional debt, ask yourself the following questions:

- Do I really need this item right now or can I wait?
- What is the true (total) cost of using credit?
- How much is the monthly payment and when is it due?
- How many months will I have to make this payment?
- Can I afford the monthly payments?
- What will happen if I don't make the payments on time?

Managing Your Money

2

If you want to be successful at managing your money, you'll need to understand the importance of budgeting, spending money wisely, and saving.

Needs Versus Wants

You can begin by thinking about your personal needs and wants. "Needs" are items that you must have for basic survival, such as food, clothing, and shelter. "Wants" are things you desire but can live without, such as fashion items, restaurant meals, or entertainment.

Make a list of each and estimate the costs; then compare. Are you spending as much for your wants as for your needs? Are you currently making payments on items that you bought to satisfy your wants?

Remember, wants are neither good nor bad. However, you'll want to personally balance your needs and wants so you can successfully establish a savings plan and good spending plan principles. The savings and spending plans will help you establish and maintain good credit, and work toward establishing long-term financial security.

Stay on Course

Teach Your Kids!

If you have children, don't forget to teach them about needs and wants, too! This is particularly important as children grow up, go to college, move out on their own or get married. A good understanding of how to manage needs and wants will help them to achieve their own financial stability.

Young people are increasingly faced with numerous credit card offers and telephone solicitations. With social pressures to do what their friends are doing, and with little or no knowledge of how credit "works," they may be an easy victim for financial ruin.

Needs Versus Wants

Take a few minutes and think about your personal needs and wants. Use the *Needs Versus Wants Worksheet* below to make a list of your needs, (items necessary for survival) and a list of the items that you have purchased out of "want."

Estimate the monthly cost of each of these items. In other words, what is the total monthly cost of your "needs" such as housing, food and clothing? What is the total monthly cost of your "wants" or items you may be making payments on that were purchased to satisfy your "wants?"

Are you spending as much for your "wants" as for your "needs?" Try to identify ways to be frugal in the future to save more money.

Needs Versus Wants Worksheet

Needs (items necessary for survival)	**Monthly Cost**	**Wants** (items purchased out of desire)	**Monthly Cost**
Total Cost of Needs:		***Total Cost of Wants:***	

How to Make a Spending Plan

To establish and maintain a good credit record and to demonstrate your ability to manage and repay your debts, make a spending plan and live within it.

To develop a spending plan, take the following steps:

1. Determine your monthly income.
2. List your fixed monthly expenses. Fixed expenses stay the same every month, such as a car payment.
3. Know your variable expenses. Variable expenses change from month to month, such as groceries.
4. Track and plan for large, periodic expenses, such as car insurance.
5. Compare your income with your expenses.
6. Set priorities, goals, and limits.
7. Set a savings plan and make it a priority.
8. Always keep an emergency fund.
9. Plan ahead for major purchases and avoid impulse decisions.

Once you get comfortable with a spending plan, you can be more flexible and make adjustments so you are making financial decisions that are in your family's best interest. Use your spending plan to help you stay within your means and make wise choices.

Stay on Course

Tips for Sticking to a Spending Plan

- Be determined and exercise willpower.
- Communicate with your immediate family members about issues related to your spending plan.
- Be prepared to compromise: purchase a less expensive item or hold back on the purchase altogether.
- Develop a user-friendly system of documenting expenses.
- Be creative and use incentives.
- Revisit your spending plan periodically, it is recommended at least every three months.

Stay on Course

If You Send Money to Relatives Living in Another Country

Remember to include the amount of money you send to your relatives living in another country in your spending plan. If you send the same amount of money each month (such as $200 per month), add it to your fixed expenses. If you send a different amount of money each month, for example, $100 in January; $175 in February; and $150 in March, calculate the average amount based on three months ($100 + $175 + $150 = $425 ÷ 3 = $141.66) and add it to your variable expenses.

Sample Spending Plan Worksheet

The following spending plan is broken down into the following types of expenditures: Fixed Expenses, Periodic Fixed Expenses, Variable Expenses, and Indebtedness.

Depending on your situation, some expenses (for example, long distance calls or a cell phone) may be considered variable rather than fixed expenses. ***Be sure to adjust the spending plan categories to best reflect your needs and lifestyle.*** *(Report all expenses as monthly amounts.)*

Fixed Expenses

Housing

Rent, Mortgage, or Lot Rent	$
2nd Mortgage/Equity Loan/Association Fees, etc.	$
Heating	$
Electricity	$
Telephones (basic service)	$
Other	$

Transportation

Gas/Public Transportation/Taxi/Parking	$
Car/Truck Payment	$
Other	$

Insurance

Health (medical and dental, if not payroll deducted)	$
Life/Disability	$
Other	$

Child Care

Child Care/Babysitters	$
Child Support/Alimony	$
Other	$

Family

Money you send to relatives living in another country (if you send the same amount each month)	$

Personal Savings

Remember to pay yourself first	$
FIXED EXPENSES SUBTOTAL	$

Periodic Fixed Expenses *(list 1/12th of the annual payment amount)*

Housing

Property/Real Estate Taxes (if not included in mortgage)	$
Home Insurance (if not included in mortgage payment)	$
Renter's Insurance	$
Water/Sewage	$
Trash Service	$
Other	$

Transportation

Car Insurance	$
Car Licenses	$
Car Repairs and Maintenance	$
License Plates/Registration Fees	$
Other	$
PERIODIC FIXED EXPENSES SUBTOTAL	$

Variable Expenses

Food

Food/Groceries	$
Work Related (lunches and snacks)	$
School Lunches	$
Other	$

Child Care

Diaper Expense	$
Other	$

Medical

Doctor	$
Dentist	$
Prescriptions	$
Glasses	$
Other	$

Clothing

Clothing	$
Laundry/Dry Cleaning	$
Other	$

Education

Tuition	$
Books/Papers/Magazines/Supplies	$
Lessons (sports, dance, music)	$
Other	$

Donations

Religious/Charity	$
Other (if not payroll deducted)	$

Gifts

Birthdays	$
Major Holidays	$
Other	$

Personal

Barber/Beauty Shop	$
Toiletries	$
Children’s Allowance	$
Tobacco Products	$
Beer, Wine, Liquor	$
Other	$

Entertainment

Movies, Sporting Events, Concerts, Videos, Theater, etc.	$
Internet Service	$
Cable/Satellite T.V.	$
Restaurants	$
Gambling/Lottery Tickets	$
Fitness or Social Clubs	$
Vacations/Trips	$
Other	$

Miscellaneous

Home Maintenance	$
Checking Account or Money Order Fees, etc.	$
Pet Care/Supplies	$
Hobbies and Crafts	$
Postage	$
Money you send to relatives living in another country (if you send a different amount each month)	$
VARIABLE EXPENSES SUBTOTAL	$

Indebtedness

Debts

Student Loan	$
Credit Card (monthly minimum*)	$
Credit Card (monthly minimum*)	$
Credit Card (monthly minimum*)	$
Medical Bills	$
Personal Loans	$
Other	$
INDEBTEDNESS SUBTOTAL	$

FIXED EXPENSES SUBTOTAL:	$
FIXED PERIODIC EXPENSES SUBTOTAL:	+ $
VARIABLE EXPENSES SUBTOTAL:	+ $
INDEBTEDNESS SUBTOTAL:	+ $
TOTAL MONTHLY EXPENSES	= $

TOTAL MONTHLY NET INCOME:	$
MINUS TOTAL MONTHLY EXPENSES:	- $
EQUALS AMOUNT LEFT OVER FOR SAVINGS AND INVESTMENTS	= $

** Although it is strongly recommended that you pay more than the monthly minimum payment due, lenders will use this amount when calculating monthly debt obligations.*

The Importance of Good Spending Habits

To help you develop your spending and savings plans, it's important to examine your spending habits.

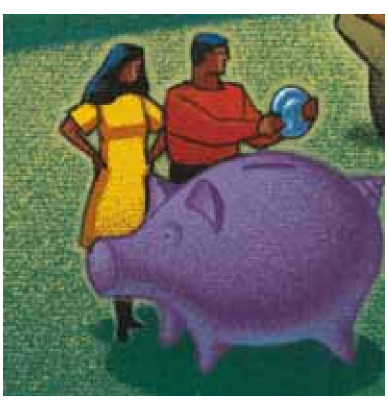
Ask yourself the following questions. If you can answer "yes," you may be at risk of damaging your credit and setting yourself up for financial difficulties.

- Are you currently unable to save any money?
- Have you reached the limit on your credit cards?
- Are you able to make only the minimum required payments on your credit cards?
- Are you buying things simply to make yourself feel good?
- Are you frequently buying merchandise only to return it upon discovering you have no need for it?
- Are you consistently "borrowing" from your savings or emergency fund to pay for current obligations?
- Do your monthly debts (excluding your rent or mortgage) exceed 20% of your monthly take-home pay?
- Have your creditors asked you to return any credit cards or have you been denied credit?

How to Establish a Savings Plan

Saving money and maintaining a spending plan is hard work! But they're worth it. Saving and keeping to your spending plan can help you become financially secure and meet your goals and priorities.

First, focus on saving. A savings plan is another way to change your spending habits. Plan to save every month, even if it is only $30 per month, which is about $1 a day. At this rate, you will have saved $360 the first year; $1,080 after three years. If you add the interest, you'd save even more.



Next, determine which categories you'll cut from your spending plan to make up your projected savings. For example, you can save $30 per month by cutting entertainment by $20 and clothing by $10. Challenge yourself to meet your goals by always looking for ways to reduce your expenses.

Stay on Course

Tips for Saving Money

- Pay yourself first.
- Ask your employer to make automatic payroll deductions and deposit these amounts in your savings account.
- Save windfall income, like a Christmas bonus.
- Collect loose change and deposit it in the bank.
- Try frugality.
- Break spending habits.
- Save lunch money; bring lunch from home.
- Save sale money.
- Have a "buy nothing week."

Also remember to comparison shop. Read newspapers and circulars for sales in grocery stores. Exchange information about sales, discounts, and other money-saving tips with family and friends. Use coupons and discounts. Take advantage of outlet stores, shop off-season, and buy clothes that will endure. And finally, don't buy more than you need.

Use Credit Cards Wisely

Credit cards can be either your friend or your worst enemy. If you pay your credit cards on time and in full each month, they can offer you up to 30 days of "interest-free money" and give you an excellent credit history.

If you allow your credit cards to reach high, unpaid balances, or if you only pay the minimum amount due, they can cost you hundreds and thousands of dollars in interest and can easily lead to destroying your credit. As a result, you will damage your credit score and your ability to get credit will be affected.

For Example

Paying More Than the Minimum

A person who charges $2,000 on a credit card with 19.8% interest and an annual fee of $40 will end up paying approximately $8,202 over 31 years if the person makes only the minimum monthly payment. By doubling the minimum monthly payment and with no additional charges, this person could be out of this $2,000 debt in three years.

Stay on Course

Tips for Using Credit Cards Wisely

- Don't use a credit card for a purchase unless the amount is within your monthly spending limit.
- Limit yourself to two or three cards.
- Pay off the balance in full each month.
- Always pay more than the minimum payment required.
- For large purchases, plan to pay off the amount in three monthly installments.
- Do not consider the credit card an emergency fund.
- Save money for trips and use the card only for convenience and safety.

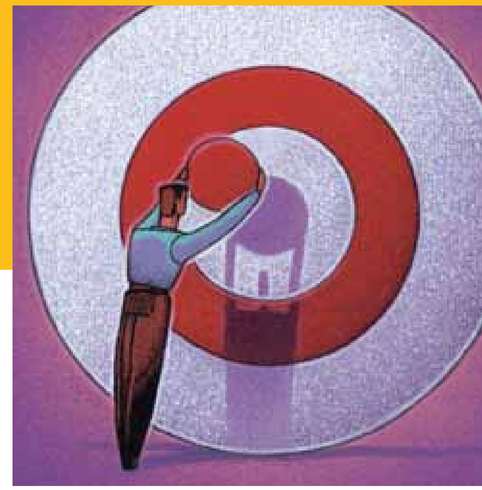
Remember—low monthly payments are not without a high price. So, if you use credit cards and cannot pay off the card in full each month, make it a priority to always pay more than the minimum due.

Stay on Course

Be on the Alert!

- ***Debit cards or ATM cards***—cards that withdraw money directly from your checking account—are very convenient. However, you need to be extra careful to avoid card theft and/or fraud and report it immediately to the debit card issuer. Remember to protect your card, account number, and copies of your purchase receipts. In case of theft or fraud, report the incident immediately to the credit card company or bank who issued the card. Always protect your card, your PIN number, your account number, and your purchase receipts.
- ***Read the fine print of credit offers***, such as "Buy Today and Pay Nothing for Six Months." While on the surface, these offers sound like great deals, the fine print may cost you quite a bit of money if you don't pay off the purchase in full by the promotional due date.
- If you're having difficulty with your debts and/or spending habits, ***contact a nonprofit, community-based credit counseling agency.*** Many credit counseling agencies offer free or low-cost assistance to get you back on track. However, make sure you avoid "quick fix" or "credit repair" companies. Most of these businesses charge excessive fees and may cause even more damage to your credit history.

Goal Setting



3

If you want to achieve financial security in your lifetime, you'll need to establish clear goals. If you set these goals and remain focused on attaining them, managing your finances will be less difficult.

To begin, make a list of the goals that are important to you. Next, decide which goals are most important and assign each goal a priority, based upon your values. Finally, look carefully to see if your goals and assigned priorities reflect what is important to you and your household.

Stay on Course

Tips on Setting Goals

- Express goals as positive statements.
- Be specific—set time frames or a target date.
- Write down your goals.
- Distinguish between short- and long-term goals.
- Establish priorities.
- Set goals that are realistic and attainable.

Once you establish your goals, you'll have a direction or "road map" to help guide you in working toward long-term financial security.

Goal Setting Worksheet

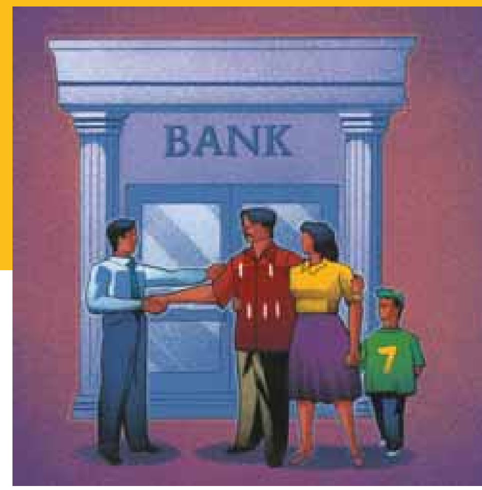
Express your goals as positive statements, and be specific and realistic.
Place your most important goals at the top of your list.

Short-Term Goals (1 Year or Less)	***Time Frame for Completion***
1)	
2)	
3)	
4)	
5)	
Medium-Term Goals (1–5 Years)	***Time Frame for Completion***
1)	
2)	
3)	
4)	
5)	
Long-Term Goals (5 Years or More)	***Time Frame for Completion***
1)	
2)	
3)	
4)	
5)	

Banking Services: An Important Step

4

Building credit and saving money to achieve your long-term goals takes time, discipline, and patience. To begin doing so, it's important to understand the basics of banking and how to establish a relationship with a financial institution.



Tour of a Financial Institution

There are three major types of financial institutions:

Bank: A financial institution that is run under federal and state laws and regulations. Banks make loans, cash checks, accept deposits, and provide other financial services.

Credit Union: A federally regulated cooperative financial institution that is owned and controlled by the people who use its services. Credit unions serve groups that share something in common, like where they work, live, or go to church. You have to become a member of a credit union to bank there.

Thrift: A federally regulated savings bank or savings and loan association that is similar to a bank. While banks offer a wide array of services, a thrift's main business is to make home loans.

People Who Work at a Financial Institution

Because many banking services are automated, you might not be able to get to know the people who work in a financial institution. You may not be accustomed to a system that some consider "impersonal." Try not to be intimidated! The people who work there want to do business with you and are dedicated to helping you with your banking needs.

Understanding the jobs of the people who work in a financial institution will help you know whom you should talk to.

Security Guard

- Is stationed in the lobby or front door to protect the vault, money, and other valuables from theft.
- Protects employees who work there and its customers from someone intending to commit a crime.

Teller

- Stands behind the counter and takes money, cashes checks, and answers questions.
- Refers you to the person who can help you with specialized services.

Customer Service Representative

- Is seated at a desk in the lobby and helps you open an account, explains services and answers questions.
- Refers you to a person who can help you with other services.

Loan Officer

- Takes applications for loans and helps you fill them out.
- Provides written information explaining loan products and answers questions.

Branch Manager

- Supervises the bank operations.
- Helps fix problems that other employees can't solve and is the person you ask for if you have a concern.

Stay on Course

Tips When You're Visiting a Financial Institution

- If you don't know who to talk to, ask for help. Someone will take you to the right person. If you speak another language, ask for an employee who speaks your language.
- Always ask questions until you are clear on all the information and don't sign anything you don't understand.
- Ask for written information to take home to review. If you speak another language, request materials written in your language.

Choosing a Financial Institution

Use this checklist to help you choose a financial institution and the account that's right for you. Remember to look for financial institutions that employ bilingual staff, especially if you feel more comfortable speaking another language. Also ask your friends and relatives about financial institutions they enjoy doing business with.

	Financial Institution A	Financial Institution B	Financial Institution C
Name of financial institution			
Does it offer the services I need?			
Is it close to home?			
Does it have reasonable hours?			
Does it have ATMs*? If so, are they located near where I live, work, or shop?			
If I am choosing a credit union, am I eligible?			
Do any employees speak my language?			
What, if any, fees will be charged?			
How are complaints handled?			
Is this financial institution insured?			

*(Automated Teller Machines)

Stay on Course

Reasons Why You Should Keep Your Money in a Financial Institution

- ***Safety:*** Money is safe from theft, loss, and fires.
- ***Convenience:*** You can get money quickly and easily.
- ***Cost:*** Using a financial institution is usually less expensive than using other businesses, such as check cashing businesses, to cash your check. Also, a checking account allows you to write checks rather than pay for money orders.
- ***Security:*** Most financial institutions are insured. This means that if for some reason the financial institution closes and cannot give its customers their money, the insuring organization, like the Federal Deposit Insurance Corporation (FDIC), will return the money to the customer. The FDIC will only insure deposits up to $100,000 per account.
- ***Financial Future:*** Building a relationship with a financial institution will allow you to write checks so that you can demonstrate a record of paying bills, save money, and get a loan or mortgage. (However, it's possible to obtain a mortgage without having established a banking relationship. But you must keep receipts and accurate records of paying your rent and other bills.) In addition, having a bank account will help you establish and manage good credit. For example, if you opt to receive overdraft protection on your account—a feature that automatically advances funds into your account to cover items that would cause a check to bounce—you'll receive a positive tradeline for your credit report. As part of credit report terminology, a tradeline is any credit account you might have, such as a loan, credit card, or mortgage.

Advantages of Using a Financial Institution

- ***You can begin saving money, even if it is only a small amount.*** Some check cashing businesses charge extremely high fees to use their services. Try saving enough money to equal the check cashing fee. Use the funds to open a savings account at a financial institution. Every time you cash a check, deposit the money you would have paid to the check cashing company into your new savings account.
- ***You can establish, build, and improve your credit.*** To get a mortgage or other type of loan, such as a car or student loan, it is generally a good idea to have established an account with a financial institution (though you may be able to obtain a mortgage without one). When you have a bank account, lenders know that you have established a financial record and can demonstrate the responsible use of your accounts. When you use a check cashing company, there is no evidence to a lender that you have established a financial record and you may not be able to get a loan.

- ***You can avoid becoming the victim of cash advance scams by unscrupulous companies.*** For example, some check cashing businesses now offer their own types of loans—small, short-term loans that carry extremely high interest rates. Payday loans are so expensive that some states have prohibited these types of loans.
- ***You can take advantage of special programs offered by financial institutions that have begun offering low-fee checking account options.*** Be sure to ask about these special programs.
- ***You and your money are better protected.*** When you leave the doors of a check cashing company, you risk being the victim of a crime because of the large amount of cash you may be carrying out of the store. When you exit from a financial institution, you take only the amount of cash you need to carry with you and leave the remaining amount safeguarded in your bank account.
- ***Financial institutions provide other services, such as wire transfers and cashing paychecks.*** Typically financial institutions offer these and other services at lower costs than check cashing businesses.

4

Example #1

Angela uses a check cashing company to cash her checks. She cashes four checks a month and is charged $5 each time. That means she pays $20 a month (4 x $5) or $240 a year ($20 x 12 months) just to cash her checks. She does not have the ability to write checks to pay her rent and utilities since she does not have a checking account at a local financial institution.

Example #2

William cashes his checks by using an account at a financial institution that charges a monthly fee of $5, which includes 8 free checks per month and use of the automated teller machine (ATM). Additionally, ordering a box of 100 checks costs him about $18, since he purchases his checks through the financial institution.

In this case, using a checking account for one year costs Juan $78 ($5 x 12 months = $60 + $18 = $78). ***This equals a savings of $162 a year ($240 - $78).***

Opening an Account

When you go to open an account, the financial institution will review your history of using bank accounts. Some may even review your credit report.

If you have a history of misusing accounts, like frequently bouncing checks, you may not be able to open an account.

If you've never had a bank account or credit, don't worry. If you have the proper ID, a financial institution will welcome doing business with you. Usually this means you'll need a photo ID, such as a driver's license, as well as a Social Security number or taxpayer identification number (TIN).

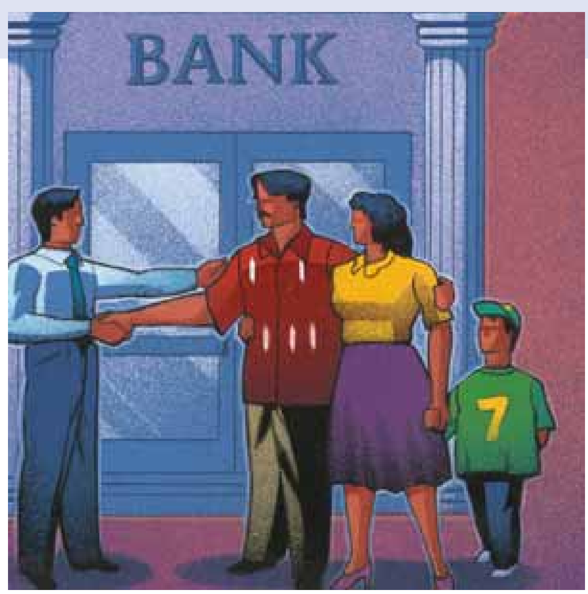
If you don't have any of these, you can use a state-issued identity card, passport, or permanent resident card.

Stay on Course

Types of Accounts

Checking Account: If you open this type of account, you can write checks to pay bills or buy goods and services. The financial institution takes the money from your account and pays it to the person or organization named on the check. You get a bank statement each month from the financial institution showing you all the deposits and withdrawals you made on your account.

Savings Account: This type of an account allows you to earn interest. You can open a savings account with a few dollars and then deposit more money over time to earn more interest and build your savings.



Choosing an Account

It's a good idea to compare the rules of different accounts. Use this checklist when you begin to look for an account to help you choose which account is right for you.

	Financial Institution A	Financial Institution B	Financial Institution C
Type of account			
How much money do I need to open the account?			
How much do I have to keep in my account to avoid fees?			
What are the fees for bounced checks?			
How many checks can I write before extra fees are charged?			
How many withdrawals can I make each month?			
Does this account pay interest?			
Does an ATM* or debit card come with this account?			
Will I be charged to use the ATM or debit card at this financial institution?			
Will I be charged to use the ATM or debit card at another financial institution?			
What is my liability if I lose my ATM or debit card?			
Are there any other fees?			
Does the financial institution offer a service for overdraft protection?			

**(Automated Teller Machines)*

Additional Banking Services

ATM

An ATM, or automated teller machine, is a machine you can use 24 hours a day to make deposits, withdrawals, and transfer money. Unlike a check cashing company, the financial institution doesn't have to be open for you to use an ATM. There are literally dozens of ATMs in any given neighborhood or community.

When you use an ATM, you use a card issued by the financial institution and a personal identification number, or PIN. The PIN is used for security purposes so no one else can access your account.

Debit Card

A debit card is a plastic card, sometimes called a "check card." It usually has the name of your financial institution printed on it along with a MasterCard® or Visa® logo. The card allows you to pay for goods and services at stores that accept these credit cards but it is NOT a credit card.

When you use a debit card, the money comes directly out of your bank account and reduces your account balance. You don't receive a bill and then have a few days to pay the bill like you do with a credit card.

The debit card also functions as an ATM card.

Direct Deposit

With direct deposit, your paycheck or benefit check is electronically transferred and directly deposited into your bank account. The amount of money deposited is available immediately.

Loans

A loan is money you borrow from the financial institution with a written promise or "note" to pay it back later. With a loan, financial institutions charge you fees and interest to borrow the money.

Money Order

Similar to a check, a money order is used to pay bills or make purchases when cash is not accepted. But usually you pay a fee to get a money order so shop around for the best price. Remember to keep copies of money order receipts used to pay bills for at least 12 months. This is important if you have not established a credit history and you go to apply for a mortgage. The receipts can serve as documentation of how you pay your rent and other bills.

Online Banking

Online banking is a bank service that allows you to make payments, check account balances, transfer money between accounts, obtain account history, stop payments on a check, and obtain general bank information at any time from any computer with Internet access.

Telephone Banking

Telephone banking allows you to use the telephone to check your account balances, transfer money between accounts, check on your recent deposits or withdrawals, and stop payment on a check.

Wire Transfer

Wire transfer is a method of electronically transferring money from one financial institution to another. It's a particularly important way of transferring funds to relatives who live in another country. The fees charged by financial institutions to wire money to countries outside the U.S. are usually less expensive than check cashing businesses.

Stay on Course

Need a secure spot to store your passport or other important papers?

Financial institutions can also keep your valuables safe. A safe deposit box, available for a small, yearly rental fee, is a fireproof, locked box housed within the bank's vault that you can use to store your valuables, such as passports, important papers, and jewelry. The keys remain solely under your control; boxes come in many shapes and sizes to meet your needs. For more information regarding these safe deposit boxes, please contact the financial institution of your choice.

Remember that financial institutions are less expensive to use and offer more services than check cashing companies. Also, a financial institution offers more and better services and provides more security for you and your money.

Also, building a relationship with a financial institution can help you:

- Establish a record of paying your bills.
- Save you money.
- Help you obtain credit and get a loan or mortgage.

Establishing and Maintaining Good Credit

5

How to Establish Credit

The key to establishing good credit is to carefully review your borrowing options and proceed cautiously.

First, open a checking and savings account at a bank or credit union. Shop around for free or low-cost checking account options.

Once you set up your accounts, use your checking account wisely. Try to never bounce checks and keep a minimum balance of a couple of hundred dollars in the account. Make regular deposits and contact or respond to the financial institution promptly if you experience any account problems.

Many banks and credit unions also offer credit cards. Ask the credit card companies for the terms and procedures to extend credit to non-U.S. citizens with permanent residence. Review interest rates and fees carefully. Do not be lured by low introductory rates, only to find that the rate goes up dramatically in a few months. Be sure to ask the credit card issuer if they report how you pay to a credit reporting agency. If they do not, this card will not be convenient for you, since you cannot establish credit using the card, even if you pay it off every month.

In most cases, one or two credit cards, used wisely, should suffice. Too many credit cards may lead a creditor to believe that you are overextended and that you might fall behind on future payments. Don't charge to the limit of one card. It's better to charge less on both cards with room to spare.

Don't charge more than you can afford based on your monthly income. Get into the habit of paying off the card in full, or as much as you can, each month. Make absolutely certain that your payments are made on time! Don't accept every credit card solicitation. Be wary of taking out credit cards that you do not plan to use just to get a small one-time discount or promotional item like a T-shirt, watch, or toy.

Stay on Course

How Much Debt Should You Take On?

Generally speaking, your expenses should not exceed more than 20% of your take-home net pay (excluding a mortgage). In other words, if you make $2,000 per month, your total monthly debt payments, such as car loan, credit card, and student loan payments should not exceed $400 per month, excluding your mortgage or rent payment.

The less debt you have, the stronger your credit application and the better your chances of securing credit at favorable terms, in other words, at lower interest rates.

Credit Reports and Credit Reporting Agencies

Your credit report is a listing of the information in your credit record. Your credit report includes:

- Your name, date of birth, and Social Security number or tax identification number.
- Your current and previous address.
- Your current and previous employers.
- Your debts.
- Your payment history with companies that have loaned you money under an agreement to pay it back, such as banks, credit card companies, department stores, including whether you pay your bills on time, and you pay the proper amounts due.
- Public record information, such as tax liens, bankruptcies, or foreclosures, even if these happened several years ago.
- Inquiries made by potential creditors each time you apply for credit, whether you were granted or denied credit.
- A list of your accounts, if any, that have been referred to a collection agency for default.

Credit reporting agencies are companies that gather information on potential borrowers and sell that information in the form of a credit report to credit grantors. Credit reporting agencies keep records of consumer debt and how regularly these debts are paid. Data includes information on whether the payments are up-to-date or overdue and whether any action has been taken to collect overdue bills.

Three major credit reporting agencies maintain a record of your credit history. They are Equifax, Experian, and Trans Union.

It's important to note that inquiries or applications will show up on your credit report, even if you are denied credit or decide to decline the credit. Too many inquiries by creditors showing on your credit report are a sign that you are overextending yourself. Inquiries stay on your credit report for 24 months. Therefore, it's important to keep the number of inquiries to a minimum.

When shopping for a car or a home mortgage, however, you do have the flexibility of checking out your financing options within a short period of time. Doing so will show that you were comparison-shopping versus desperately seeking credit.

Requesting a copy of your own credit report for your personal review is strongly encouraged and does not negatively impact your credit history.

Sample Credit Report

Here's what a typical credit report looks like. This credit report is from one of the three credit reporting agencies, Equifax.

Your Credit Score:

A numerical value determined by a statistical model based upon past credit behaviors which predicts the likelihood of future loan default.

Consumer Identification:

Your name, address, Social Security number, and other identifying information.

```
                                  CREDITbase

I Dayton,Dave*
2 149,,Jefferson,,Fantasy Island,IL,60750*
5 124541982,,,**
TYPTS,EU-RentScreeners Inc,ALG002

////////////////////// CREDITbase AnyBureau Report //////////////////////
//           Equifax-Style Report Generated from Trans Union Data        //
// End User: RentScreeners Inc                                           //
// Operator: DEF                          Data Timestamp: 08/04/98 15:46 //
//////////////////////////////////////////////// Printed: 12/22/98 11:36 //

***EMPIRICA ALERT: SCORE +00668:     022/010/008/014 ***

*DAYTON,DAVE Since          FAD
 149 JEFFERSON,FANTASY ISLAND IL 60750
 SSS-124-54-1982
 01 ES-,ABC BANK
**************************************************
```

Inquiries:

Companies that have reviewed your credit file over the last two years.

```
*INQS-Subject Shows 08 Inquiries Since 08/24/97
     MERIT SYST ZLA8256407 08/04/98     HOUSEHOLD  Y111992043  02/05/98
     CBC CO MAC ZLG0076311 02/05/98     1000 OAKS  ZLA0085124  01/07/98
     MERIT SYST ZLA8256407 01/05/98     CBC CO MAC ZLG0076311  01/05/98
     GMAC MORT  FRD0091736 10/03/97     TMS-HIRCA  QST1960042  08/24/97
```

Collections:

Your accounts that have been transferred to a professional debt collecting firm.

```
C O L L E C T I O N S
   Firm/ID Code        OPND  VRFD   CLSD   $Placed Balance CS ECOA Account Number
ABLE ASSOC 91MY001                   M     $1200   $1200   09B  I   12345
  Creditor-ABC BANK, Remarks-Placed For Collection
ABLE ASSOC 91MY001                   M     $1300   $1300   09B  I   123456
  Creditor-ABC BANK, Remarks-Placed For Collection
ABLE ASSOC 91MY001                   M     $1400   $1400   09B  I   1234567
  Creditor-ABC BANK, Remarks-Placed For Collection
```

Trades:

An ongoing historical and current record of your buying and payment activities.

```
T R A D E S
*   Firm/ID Code        RPTD  OPND  H/C TRM  BAL P/D CS   MR ECOA Account Number
CHOICE      1679002               2414       543     R01       I   809098
   30(  )60(  )90+(  ) Verified V
SIMMONS FN 1067003                 125 P12     0     I01       I   1287009817
   30(  )60(  )90+(  ) Verified V
BTMN'S BK  8758006                     20Q 4433      I01       I   9898009876
   30(  )60(  )90+(  ) Verified V

End Of Report -            -- Serviced By:

FANTASY ISLAND / 0605 TEST MARKET                              800 888-4213
555 W. ADAMS CHICAGO, IL. 60661
```

Managing Your Credit

All lenders and creditors want to be sure that you are a good credit risk and you'll pay your bills on time. Here's how to manage your credit to demonstrate your creditworthiness.

1. Demonstrate Your Stability

You can demonstrate stability by:

- Your employment history
- Your income history
- The length of time you've lived at your current address
- Owning a home
- Establishing and maintaining a savings account

2. Know What's in Your Credit Report

You should know what's in your credit report to be sure that all of your identifying information and accounts are correct. Review your credit reports from each of the three credit reporting agencies—Equifax, Experian, and Trans Union—at least once a year to make sure they are accurate. Your credit report may vary from one company to the other.

Here's how you can contact each company:

- ***Equifax:*** 800-685-1111, *www.equifax.com*
- ***Experian:*** 888-397-3742, *www.experian.com*
- ***Trans Union:*** 800-888-4213, *www.transunion.com*

If you've been denied credit, you can get your report for free by following instructions in the written notice you received denying you credit. Moreover, due to changes in the federal Fair Credit Reporting Act (FCRA), consumers throughout the U.S. are able to ask for a free copy of their credit report once every 12 months from each of the credit reporting agencies. For more information, log onto ***www.annualcreditreport.com*** or call ***877-322-8228***.

3. Pay Your Bills on Time

How you've paid your bills in the past is usually the best indicator of how you'll pay in the future. Be sure to pay at least the minimum amount required by the date it is due on your account statement or invoice. You can always pay more, but you should never pay less than the minimum.

Remember, being late on a payment is a negative mark on your credit report even if you make up the payments later or provide extenuating circumstances, such as job loss. Also, if you are late making payments, you may be charged a penalty fee.

Apply for Credit in Your Own Name

It is common practice for both partners in a marriage or relationship to establish their own credit to protect their family from unforeseen circumstances like death, divorce, or other life changes and to achieve financial goals.

Follow these guidelines to become better prepared for life's changes:

- ***Establish credit in your own name so that you have your own credit history.*** Even with no income of your own, having separate savings, checking, and credit accounts will enable you to establish your own credit history. In this way, you will be responsible for managing your own accounts since no one can supervise your accounts better than you.

- ***With credit cards, you need to oversee the card's use.*** Make sure that your spouse does not run up an excessive amount of charges that together you cannot repay. You can do this by regularly discussing household and personal expenditures with your spouse and calling the credit card company regularly to check the status of the account.

- ***If you co-sign for loans, it is important that you have some control over the source of income used for repayment.*** For example, couples owning a small business, such as a professional practice, are sometimes required by lending institutions to co-sign or guarantee the business loans. Generally these loans are controlled by the spouse who operates the business and the other spouse may have little input into the decisions affecting the company. If the business fails and you have co-signed the loans, you must assume shared responsibility for repayment of the loans.

- ***If you have had credit before under a different name or a different location, make sure your local credit reporting agencies have complete and accurate information about you in a file under your current name.***

- ***If you were married or divorced recently and changed your name, ask your creditors to change your name on your accounts.***

- ***If you have shared accounts with your spouse, creditors should be reporting information about these accounts to credit reporting agencies under both names, but check with the credit reporting agencies to make sure.***

Stay on Course

Review Your Credit Report!

It's important to review your credit report from each of the three credit reporting agencies at least once a year to be sure that the information is accurate. ***Be aware that sometimes information about people with similar names can show up on your report!*** Therefore, always make sure that the Social Security number or taxpayer ID and account data on the report are correct.

Think Carefully Before You Co-Sign for a Loan

- You are being asked to guarantee the debt. Think carefully before you do. If the primary borrower does not pay the debt, you will have to pay. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.
- You may have to pay up to the full amount of the debt if the primary borrower does not pay. You may also have to pay late fees, legal, or collection costs, which increase this amount.
- The creditor can collect this debt from you without first trying to collect from the borrower. The creditor can use the same collection methods against you that can be used against the primary borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of your credit record.
- Even if you're not asked to repay the debt, your liability for the loan may keep you from getting other credit because creditors will consider the co-signed loan as one of your obligations.
- Before you pledge property to secure the loan, such as your car or furniture, make sure you understand the consequences. If the borrower defaults, you could lose these items.
- Ask the lender to agree, in writing, to notify you if the borrower misses a payment. That will give you time to deal with the problem or make back payments without having to immediately repay the entire amount.
- Make sure you get copies of all important papers, such as the loan contract, the Truth-in-Lending Disclosure Statement, and warranties—if you're co-signing for a purchase.
- Stay in contact with the borrower to ensure that the loan is being repaid in full, on time, every time.

Stay on Course

Credit Myths

- ***If you catch up on your late payments, it won't show up on your credit report.*** ***False!*** Each time you make a payment late, you run the risk of the creditor reporting the late payment to the credit reporting agency. If you catch up, your credit report must show that you are caught up—but it will also show that you were late.
- ***If you pay a small amount by the due date, it will be counted as a full payment.*** ***False!*** You must pay the minimum amount required by the due date. Otherwise, your creditor may report the payment as late.
- ***If you have a good reason for not paying, it will be overlooked.*** ***False!*** Contact the creditor if you experience a crisis, like losing your job or becoming seriously ill. You may receive a grace period or payment plan from the creditor, but never assume such an agreement is automatic.
- ***When paid, the bad debt will go away.*** ***False!*** Because credit reports provide a history of your credit, bad debts, charge-offs, and late payments can stay on your credit report for seven years. You can, however, provide your own explanation of the situation for inclusion in the report received by future creditors.
- ***You are not responsible for debts on joint accounts or co-signed accounts if they are not your purchases.*** ***False!*** Any time you are a joint account owner or co-signer, regardless of whether you've paid your share, both parties can be held completely responsible for the payment. The same is true for divorces.
- ***You are not allowed to see your credit report.*** ***False!*** You have a right to see what's in your credit report. A copy of your credit report may be free or may cost you a small amount of money.
- ***Once you have credit problems, your credit score will not improve for seven years.*** ***False!*** You can improve your credit score over a shorter period of time because recent entries to your credit report carry more weight. So keep working toward better credit!

If Your Credit Report Contains Mistakes

If you believe that any one of your credit reports contains mistakes and you wish to correct the mistake, contact the company that developed the report at the telephone number or website previously listed.

Under the Fair Credit Reporting Act (FCRA), the company must complete an investigation of your disputed items (generally within 30–45 days) and provide you written notice of the results of the investigation within five days of its completion. The notice should include a copy of your credit report if it has changed based on the dispute.

If you're in the process of applying for a loan, tell the lender immediately about the incorrect information.

Negative information stays on a credit report for seven years; public record information such as bankruptcy and foreclosure can stay on a credit report for up to 10 years. With time and a history of on-time payments, you can improve your credit record.

If You've Been Denied Credit

If your application for credit is denied, it's important to secure a copy of the credit report and find out why you were turned down. If the information in the report is accurate, you may need to work on the reason it was denied. For example, if you've been consistently late making your payments, begin paying on time.

Federal law requires a creditor that denied you credit to give you the name, address, and telephone number of the credit reporting agency. If you contact the agency within 60 days of receiving the denial, you are entitled to a free copy of your credit report.

Also, be sure to ask the lender or creditor if they'll consider a nontraditional credit file. A nontraditional credit file—for people with no credit history or bank accounts—includes records that you can assemble, such as proof of timely rent and utility payments.

Stay on Course

Common Barriers to Obtaining Credit

- History of late payments.
- Incorrect information on your credit report.
- Lack of credit history.
- Default on a co-signed loan, even if you were not the primary borrower.
- Judgments.
- Collection accounts.
- Charge-offs.
- Bankruptcies.

Stay on Course

Credit Laws

- Your rights under the ***Equal Credit Opportunity Act (ECOA):***

  1. You cannot be denied credit based on your race, sex, marital status, religion, age, national origin, or receipt of public assistance.
  2. You have the right to have public assistance considered in the same manner as other income.
  3. If you are denied credit, you have a legal right to know why.

- The ***Fair Credit Reporting Act (FCRA)*** gives you the right to know what information is being distributed about you by the credit reporting agencies and requires that the information be accurate.
- The ***Truth-in-Lending Act (TILA)*** requires lenders to give you written disclosures of the cost of credit and terms of repayment before you enter into a credit transaction.
- The ***Fair Credit Billing Act (FCBA)*** establishes procedures for resolving billing errors on your credit card accounts.

Understanding Credit Scoring

6

Credit Scoring

Credit scoring uses statistical models to evaluate your credit risk by comparing credit information about you to the credit performance of others with similar credit records. The models have been developed based on millions of credit report files and are considered to be excellent predictors of the likelihood that an individual will repay a loan.

Credit Scores

Credit scores are used—along with your credit report and other information from your loan or credit application—to determine whether you will get the financing to make your purchase. Your credit score may also be used to determine the interest rate you get on your loan or mortgage.

Credit scores are used widely today because they speed up the loan approval process. What's more, by using credit scores, lenders and creditors treat each person objectively because the same standards apply to everyone.

Credit scores assess each factor in the same way for every consumer, every time. They do not include race, religion, national origin, gender, or marital status as factors. Credit scores are blind to demographic or cultural differences among people.

Remember, no credit score lasts forever. A credit score is a snapshot based on current information in your credit report. Credit scores change over time just like your credit and credit behavior change over time.

Factors That Influence Credit Scores

A credit score is based on information contained in your credit report. Many factors are used to determine your score:

- Your payment history.
- The amount of debt you owe.
- How long you have been using credit.
- How often you've applied for new credit and taken on new debt.
- The types of credit you currently use, such as credit cards, retail accounts, installment loans, finance company accounts, and mortgages.

It's important to note that your income level is not a factor considered in calculating your credit score. Someone with a high level of income, for example, may have a low credit score, while someone with a low level of income might have a high credit score. It all depends on the past use of credit and the factors described above.

How to Obtain Your Credit Score

The most commonly used credit score today is known as a FICO® score. Developed by Fair Isaac Corporation, FICO scores are ranked on a scale of approximately 300 to 900 points. Generally, the higher the score, the lower the predicted risk to the lender.

You can obtain a copy of your FICO credit score online for a small fee at ***www.myfico.com.*** This website also provides additional information on credit scoring, factors, and credit tips.

When applying for a loan, ask your lender or creditor to explain what your credit score means in relation to the final credit decision. Because scoring systems and numerical ratings vary, never assume that your score is good or impaired until it has been fully explained to you by a credit industry professional.

Stay on Course

Tips for Improving Your Credit Score

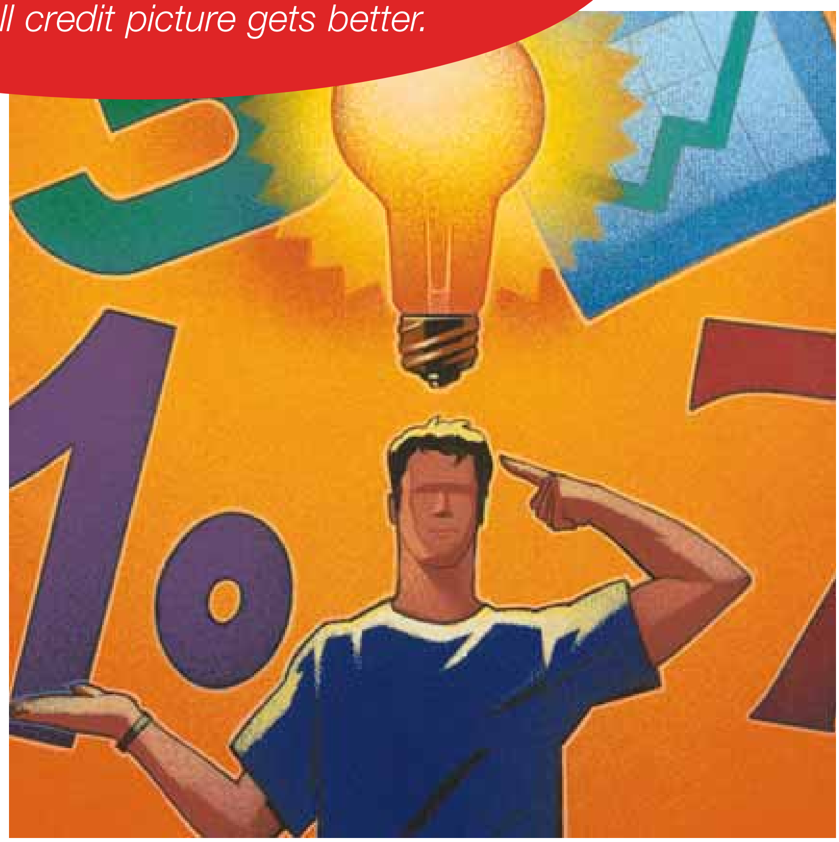
- Pay your bills consistently and on time.
- Check your credit report and correct any errors.
- Keep credit card balances low.
- Apply only for credit cards you need.
- Pay off debt rather than transferring to a new card.
- Establish credit and use it wisely.

How to Improve Your Credit Score

If you'd like to improve your credit score, please note that it takes time. Because credit scoring utilizes data contained in your credit report, the scoring system is actually analyzing your credit patterns over time. There is no quick fix. In fact, quick fix efforts can backfire.

You should always make sure that the information in your credit report is correct and manage your credit responsibly over time.

Remember—credit scores reflect your long-term pattern of credit usage and repayment history. Credit scores automatically improve as your overall credit picture gets better.



Thinking Like a Lender

7

Getting a mortgage or other loan today is faster, easier, and less costly than it has ever been. Automated underwriting has made that possible. Lenders and creditors consider four primary factors when determining your creditworthiness. They are:

- ***Capacity***
- ***Capital***
- ***Credit***
- ***Collateral***

Automated underwriting dramatically speeds up the lending process and reduces the cost of getting a mortgage loan by using statistical computer models based on these factors. Automated underwriting never uses factors, such as a borrower's race, ethnicity, age, or any other factor prohibited by the nation's fair housing laws.

Capacity

Lenders and creditors look to see if you have the capacity to repay the loan—that is, enough income to make the monthly payments.

One of the ways that lenders verify your income is by reviewing your federal income tax returns. For more information regarding the requirements established for paying income taxes, please contact the Internal Revenue Service (IRS).

Capital

Capital is another term for cash reserves and includes possessions (property that could be liquidated). The lender will look more favorably on your credit application if you can verify that you have cash reserves. Cash reserves include savings, money market funds, or other investments that can be converted to cash. Lenders consider investments to be Individual Retirement Accounts (IRAs), certificates of deposit (CDs), stocks, bonds, and the like. They do not consider participating in pyramid scheme mechanisms with your family and/or friends as viable investments in any way.

Cash reserves demonstrate to the lender that you have managed your money in a way to set aside extra funds and have resources other than your income to repay the debt.

Stay on Course

Begin to File Your Income Taxes!

If you do not file income taxes in the U.S., begin doing so right away. It's an important way for lenders to document your income and income history so that you can obtain a loan or mortgage on a home.

Lenders, especially in the case of mortgage lenders, also consider your debt-to-income "ratios." Debt-to-income ratios are calculations or percentages of the amount of your gross monthly income that may be paid for monthly debts.

For example, some lenders may use a home mortgage qualifying ratio of 28/36. This means that no more than 28% of your gross monthly income can be used to pay for your principal, interest, property taxes, and insurance (PITI). Furthermore, no more than 36% of your gross monthly income can be used to pay for your PITI and other monthly debts.

Credit

Lenders will review your credit history to determine your overall creditworthiness.

If a lender or creditor finds that your credit report contains several late payments or other negative factors, such as public record items, your ability to secure loan approval will be hindered.

Similarly, if you have access to too much credit, you may be at risk of being questioned or denied credit because you could become overextended.

Collateral

Collateral is the value of possessions or property that you pledge as security for a debt. In the case of a mortgage, for example, the collateral would be the house and the land. If a borrower defaults on a loan, he or she could lose the collateral, such as a house, in the case of a mortgage.

For example, if you want to get a loan and have very few assets—but you recently inherited your grandfather's house and you're willing to pledge that property as collateral—you may be a better credit risk.

The term commonly used for this type of situation is "compensating factors." If you are strong in one area, yet weak in another, compensating factors may be considered.

Evaluating Credit Risk

Another tool used by lenders and creditors to evaluate credit and credit risk is credit scoring. Credit scoring uses information contained in your credit report and provides the lender with a credit score. The use of credit scores accelerates the loan approval process. (Refer to Lesson 6 in this guide for more information on credit scoring.)

Debt Worksheet

Use this worksheet to list all of your debts (financial obligations) which you normally pay on a monthly basis, such as car loans, student loans, credit cards, or other loans. Include the name/type of the account, the interest rate, the monthly payment, and the balance remaining on the loan.

This worksheet will help you to calculate your total monthly debt payments and your total overall indebtedness. Include only the debts that have more than six monthly payments remaining.

A. Name/Type of Account	B. Interest Rate	C. Monthly Payment Amount	D. Remaining Balance Owed
TOTAL MONTHLY DEBT PAYMENTS: *(add the numbers in column C)*		+ $__________	
TOTAL INDEBTEDNESS: *(add the numbers in column D)*			+ $__________

Cash and Asset Worksheet

This worksheet will help you to determine your net worth.

Lenders who calculate your net worth will generally average your checking and savings balances over the past three months.

Type of Account or Asset	Account Name and Account Number	Account Balance
Checking Account(s)		$
		$
Savings Account(s)		$
		$
		$
Mutual funds, stocks, and bonds		$
		$
		$
		$
Cash value of life insurance policy (policies)		$
		$
Other liquid assets		$
		$
		$
Total Net Worth:		**$**

Avoiding Credit Traps

8

Over the past few years, you've probably heard many horror stories about people who have fallen prey to various credit traps. You receive these offers every day—offers of credit, vacation sweepstakes, equity loans, telephone solicitations, and Internet junk mail.

It's important to recognize and avoid credit pitfalls and traps that can severely damage your credit and in some cases, cause extreme financial hardship.

Predatory Lending

Predatory lending practices are commonly defined as abusive lending practices that strip equity away from a homeowner. Predatory lending practices can include:

- Targeting low-income people with poor credit and elderly homeowners with a large amount of equity in their homes by making unsolicited telephone and mail offers and/or sending "checks" that, if cashed, become a loan with unfavorable terms and interest rates.
- Using high-pressure sales tactics.
- Stressing that you pay only the monthly interest on the loan can have the consequences of no equity buildup.
- Having little or no concern about the borrower's ability to repay the loan.
- Packing the loans with single premium credit insurance products, such as credit life insurance. Single premium credit insurance products that permit upfront financing of insurance premiums with borrower equity, hold the potential for abuse, especially among uninformed borrowers, and are one of the single largest causes of home foreclosure in America today.
- Repeatedly refinancing with a loan within a short period of time and charging high points and fees with each refinance.

It's important to note that just because a lender charges high interest rates or fees, it may not be considered predatory lending. People with poor credit—higher-risk borrowers—will often pay more in interest and fees.

Questionable or Costly Business Practices and Scams

There are several types of abusive lending practices, scams, or other questionable business practices that may strip equity away from a homeowner or place a consumer in financial hardship. Here is some helpful information to avoid these pitfalls.

Stay on Course

Financial Institutions: Alternatives to Check Cashing Businesses

Consider establishing a relationship with a financial institution as an alternative to using a check cashing business:

- Try to save up enough money to equal the typical check cashing fee. Use the funds to open a savings account, and once opened, you will be able to use the financial institution to deposit and cash your checks. Every time you cash a check in the future, try to put the money that you would have paid to the check cashing business into your new savings account.
- A number of banks have recently begun offering low fee checking options. Be sure to ask about these special programs.

Check Cashing Businesses

Check cashing businesses are legal and found throughout the country. People tend to use check cashing businesses because they do not have any kind of traditional credit, savings, or checking accounts. Among those who often use these businesses are working families and persons on public assistance or on fixed incomes, like Social Security.

Check cashing businesses "cash" your checks and provide other financial services. However, some charge customers extremely high fees for the service. Banks and other financial institutions can provide these same services—and more—for less money.

If your financial choices are currently limited, try one of these alternatives to check cashing businesses:

- Cash your check at the bank from which it was drawn, if possible.
- Start managing your finances so that you can save the money needed to open a checking and/or savings account.

High-Cost Cash Advances

Check cashing businesses also offer their own types of loans: small, short-term loans that carry extremely high interest rates. A six-week $200 loan from one of these companies, for example, can cost $165 in interest and fees. Bottom line: You borrow $200 and in six weeks, you owe $365!

Rent-to-Own Businesses

Rent-to-own businesses provide consumers with products, like furniture, for a monthly fee. Although seemingly affordable, you may end up paying exorbitant prices for these products through long-term rental agreements. Moreover, rent-to-own businesses do not typically cooperate with the credit industry—they don't report your payment record to the credit reporting agencies.

Generally, you are better off making a purchase using a major credit card or department store credit card than using a rent-to-own business. In doing so, you save money and obtain a credit history.

Instant Income Tax Refunds

Companies offering instant income tax refunds provide consumers with offers often too good to be true. Beware of offers like these! Instant tax refunds or refund anticipation loans are an expensive way to get your tax refund more quickly—you may gain a week or so in getting your money but you'll pay a high fee for the service.

Protect yourself from these companies by learning about tax laws or using the services of a tax attorney or accountant. File your tax returns electronically and ask for the funds to be transferred directly into a savings or checking account. Your return will be promptly processed and your funds will be safe and secure without the additional cost.

Telephone and Internet Solicitation Scams

As a general rule, NEVER provide personal data, such as account numbers or your Social Security number to someone you don't know. Scams come in all shapes and sizes. Keep in mind that there are individuals whose whole purpose in life is to deceive other people.

There are many telephone scams out there—sweepstakes claims, travel scams, business opportunities, illegal charitable solicitations, work-at-home schemes, and credit repair plans. Say no! Their goal is to deceive you and take your money.

To protect yourself against telephone solicitation scams, get on both the company and federal "Do Not Call" lists, keep records, and create a paper trail. To register your telephone number on the "National DO NOT CALL Registry," go to the Federal Trade Commission's website: www.ftc.gov. Take action by exercising your legal rights if and when you have been harmed.

You'll also find many Internet scams if you surf the Web. Be careful! Always use caution with personal data or credit card information on the Internet.

Identity Theft

Identity theft is when someone takes your personal information without your knowledge to commit fraud or theft. Identity theft is on the rise in the U.S.

With ID theft, thieves take personal information about you, such as your Social Security number, credit card numbers, or other information. They might take it from your wallet, purse, mailbox, trash, or any other means.

The thieves might call your credit card companies and pretend to be you. They might ask to change the mailing address on your credit card account. Then they use your credit card number to charge goods and services.

They might even open a new credit card account using your name, birth date, and Social Security number. If they use your name and Social Security number, the charges can show up as a delinquent account on your credit report since they will not pay the bill. The thieves could even open a bank account in your name and write bad checks.

How to Avoid Identity Theft

To minimize the risk of identity theft, follow these recommendations from the Federal Trade Commission (FTC):

- ***Before you reveal any personal information, find out how it will be used and whether it will be shared with others.***
- ***Pay attention to your bills and credit card statements.*** If your bills don't arrive on time, contact your creditor. A missing credit card bill might mean that the identity thief has changed your billing address and is using your account.
- ***Guard your mail from thieves.*** Pick up your mail from your mailbox as soon as possible. Place outgoing mail in post office collection boxes, not in your own mailbox.
- ***Do not give out personal information over the phone or through the mail unless you have initiated the contact and know with whom you are dealing.*** Thieves may pose as bankers, government officials, or others to get you to reveal your Social Security number or bank account number.
- ***Keep items with personal information safe.*** When you throw away receipts, credit card applications, and old checks or statements, make sure to shred them.
- ***When you make up your PIN for your credit, ATM, or debit card, don't use something a thief might guess, such as birth date, Social Security number, or phone number.***
- ***Order a copy of your credit report at least once a year.*** Catch mistakes and fraud before they ruin your personal finances.

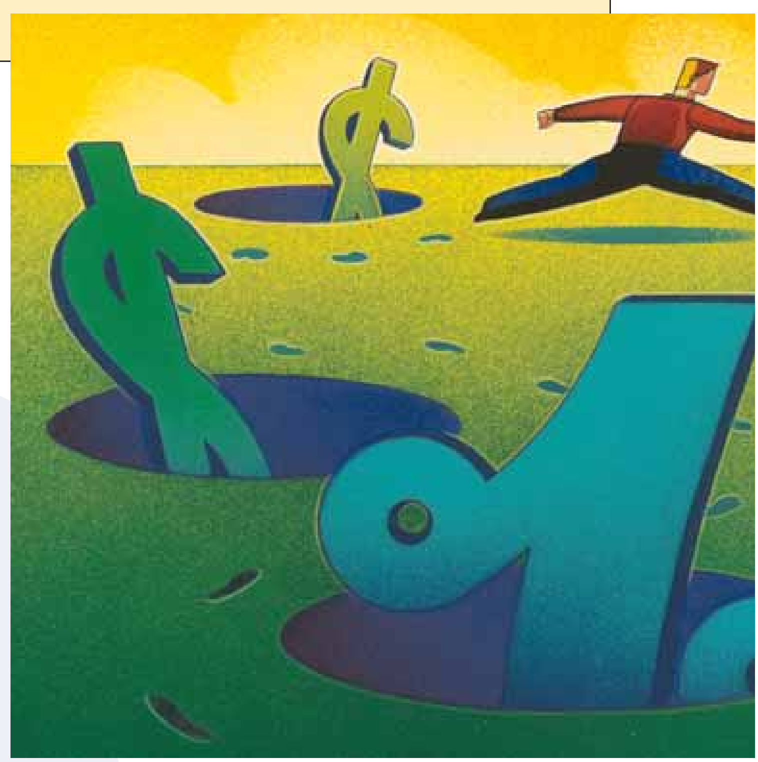
Take Action Immediately!

The FTC recommends the following actions if you believe you are a victim of identity theft. You can also call the FTC's Identity Theft Hotline at 1-877-IDTHEFT (1-877-438-4338).

Take action immediately!

Keep records of your conversations and all correspondence.

- ***Contact the fraud department of the three major credit reporting agencies. Tell them you are an identity theft victim.*** Ask them to place a "fraud alert" in your file. This alert means that any company that checks your credit will know that your information was stolen, and will therefore have to contact you by phone to authorize the extension of new credit. This will prevent anyone from continuing to illegally (without your knowledge or consent) use your credit. Ask the credit reporting agencies for a copy of the credit report. They must give you a free copy of your report if it is inaccurate because of fraud.
- ***Contact your creditors about any accounts that have been changed or opened fraudulently.*** Ask to speak with someone in the security or fraud department.
- ***File a report with your local police.*** Get a copy of the police report so you have proof of the crime.



8

Home Equity Loans and Lines of Credit

If you already own a home, you've probably received many offers for home equity loans and lines of credit. A home equity loan is a loan secured against your home. It is a loan in addition to your existing mortgage.

A line of credit is also secured against your home. However, you are not issued a check—you have access to funds up to the limit of the line of credit. A line of credit is, in many ways, similar to a credit card. It is a revolving line of credit. You can borrow money and pay it back as many times as you need to during the term of the loan.

Before you accept an offer for a home equity loan or line of credit, make sure you know the terms of the loan and if there are prepayment penalties. Home equity loans are often structured as 10- or 15-year loans—that's a long time to pay it back. If you use the funds for a new car or a vacation, the car will need to be replaced and your vacation memories will be long gone. Moreover, since homes in most markets appreciate in value over time, leaving your appreciation intact is an excellent way of saving for college and your retirement.

If you need to use your asset—your home—for some important family need, such as retirement or sending a child to college, shop around for a mortgage that is fairly priced, with fair terms, and ethical marketing.

8

Prepayment Penalty Mortgages

Some consumers may be misinformed regarding the terms of a prepayment penalty mortgage (PPM). In order to avoid feeling trapped in a PPM, you should consider the following information before you make a choice. A prepayment penalty mortgage requires that you pay a prepayment penalty or fee (a percentage of the unpaid principal balance) if you repay your entire loan (or a substantial portion of it) within a certain time period. A substantial payment is defined as any amount that exceeds 20% of the original principal balance.

Advantages of a PPM

- Possible cost savings benefits of reduced fees or closing costs.
- Possible lower interest rate.

Disadvantages of a PPM

If you pay off your mortgage debt before it is due, or if you choose to refinance your loan, you will owe a substantial prepayment penalty.

Using a PPM is a personal decision that depends greatly on both your current financial situation and how long you think you'll keep your mortgage before refinancing or making a large payment against it.

Before choosing a PPM, be sure to obtain the following information from your lender in writing:

- The terms of the mortgage provision containing the prepayment penalty.
- The amount of the penalty that you will be required to pay.
- The time period in which the penalty will be charged if you prepay or make a substantial payment on your loan.
- Any other conditions under which the lender may charge you a prepayment penalty.

In addition, you should ask your lender several questions as you consider the pros and cons of a prepayment penalty mortgage, such as:

- How much will I save on my closing costs or fees?
- Will my interest rate be lower if I accept a PPM?
- Under what conditions will the lender enforce the prepayment penalty?
- Will the lender enforce the prepayment penalty if I sell my home?
- How is the prepayment penalty calculated, and how much will it be on my loan?
- When can I prepay the loan without incurring a penalty?
- How does this mortgage compare to a non-PPM?

BE SURE to research all your options as you look for the right type of mortgage for you. Remember, your lender should be available to answer all of your questions and to help you make an informed decision. You may also wish to seek the assistance of a housing counselor in your area. ***REMEMBER: PPMs are a borrower's choice, never a requirement.***

Restoring Your Credit

9

If you've ever experienced financial difficulties or credit problems in the past or at present, here's some useful information to help you build back your credit and credit rating.

The major reasons for financial difficulties are:

- Loss of income (job loss, divorce, death)
- Emergency and/or unexpected expenses (medical expenses, etc.)
- Poor money management (overspending, compulsive buying, purchasing things you can't afford)
- Defective goods and services (car repair, house repair, etc.)
- Fraudulent use of your credit card—identity theft

Warning Signs of Credit Problems

Be aware of and recognize the warning signs that might be a signal of pending financial and credit problems:

- Inability to pay your bills on time and paying late fees.
- Difficulty deciding which bills to pay each month.
- Forced into using credit cards for routine purchases for which you would normally make with cash or checks.
- Spending more than 20% of your monthly net income to pay back credit cards and other loans (excluding a mortgage).
- Borrowing money to make payments on existing loan obligations.
- Frequently at, near, or over your credit card limit.
- Paying only the minimum payment due on your credit card bills.
- Paying bills late or putting off necessary things, like visits to the doctor, because you don't have enough money.

- Working overtime or a second job just to cover food, housing, and other basic living expenses.
- Thinking your financial condition is beyond help.

If after reviewing this list, you thought, "That's me," you are not alone. It's easy to fall into the trap of any one of these items. And, once you're in the hole, digging out often seems impossible.

How to Cope With a Financial Crisis

Communication and early intervention are key to helping you cope with a financial crisis. Here are some tips to help you get through a difficult time and keep your credit intact.

1. ***Pay yourself first.*** Put yourself on "the payroll." Always set aside money for savings.
2. ***Don't wait until it's too late to seek help.*** Seeking help early on, while the problem is still small, will make for easier, more manageable solutions.
3. ***Call the lender or creditor, explain your situation and work with them.*** Creditors always respond better to a consumer who reaches out to them rather than a consumer who avoids them. By contacting them, you can make payment arrangements or restructure the debt. Never ignore communications from your lender or creditor.
4. ***Don't make promises that you cannot keep.*** Be realistic.
5. ***Be honest and don't give up.*** If you tell the truth to your creditors, you'll ensure a good relationship and positive resolution.
6. ***Talk to a local nonprofit credit counseling agency to help you rebuild your credit.*** A credit counselor can provide confidential spending plan and debt information, debt repayment programs, and financial management education. Look in your own community for valuable resources.

Restoring Your Credit

If you've experienced credit problems in the past, there are ways to restore your credit.

First, contact former creditors with whom you've had a good payment record. They may be willing to extend your credit to re-establish your credit.

Next, carefully review any credit card offers you receive and do not acquire too many. Usually two credit cards will suffice.

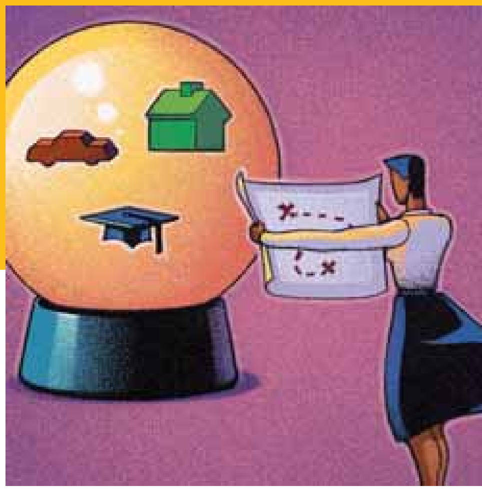
Consider offering security on an account, such as a car or secured credit card. But remember that if you default on the secured loan, the item that is attached may be repossessed. A secured credit card is a card whereby you have funds available—like $500—to secure a credit card with a $500 limit. If you choose a secured credit card, be sure that the credit card issuer reports to the credit reporting agencies so that there's a record of you restoring your credit. You might also ask a family member or friend to co-sign a loan with you on a credit or loan application. Keep in mind, however, that both parties are responsible if you are unable to make your payments. Conversely, be sure that you carefully consider a request made by a family member or friend to co-sign a loan for their credit or loan application—both parties are responsible! In the event of non-payment, both parties' credit rating are damaged.

Avoid credit repair companies at all costs. They may promise the world, take your money, and get you into more debt. Instead, contact a nonprofit community-based credit counseling organization.

Restoring your credit takes hard work and discipline, but it's well worth it in the long run. ***Don't give up!***

Take the following steps to restore your credit:

- Examine how much you owe and to whom.
- Prepare a spending plan.
- Contact creditors to whom payment is overdue and work out payment arrangements.
- Consider possible sources of money.
- If you have money in a savings account, consider using it to pay off what you can.
- If your delinquency is serious, such as faced with foreclosure, consider borrowing from your retirement account.
- Sell assets.
- Consider getting a second job.



Planning for Your Future

10

In the world of credit and credit management, your future is really yesterday, today, and tomorrow. Everything that you have already done and the financial decisions that you have made in the past are actually all a part of your future.

You can achieve the financial goals that you set for yourself and attain financial security through good money management, smart spending, and establishing and maintaining a good credit history. With an understanding of credit and credit systems, you'll be better able to expand your economic opportunities and realize your goals and dreams.

Steps to Financial Success

Secure Your Future

- Track your spending and create a spending plan.
- Pay yourself first: open a savings and checking account.
- Set up an emergency fund.
- Be systematic: use payroll savings.
- Educate yourself about personal finance.

Think Long-Term

- Estimate your pension or retirement fund.
- Know your Social Security benefits.
- Contribute to a 401(k) and/or an IRA.
- Invest in stocks and mutual funds.
- If interest rates go down, consider refinancing your mortgage.

Keep Your Credit in Good Shape

- Make all payments on time.
- Reduce your debt.
- Limit the number and use of credit cards.
- Review your credit report.

Hope for the Best; Prepare for the Worst

- Check your insurance coverage.
- Consider disability insurance.
- Update beneficiary designations and prepare a will.
- Organize financial records.
- Don't abdicate responsibility.

Becoming a Homeowner

11

Is Homeownership Right for You?

More than 2/3 of people in the U.S. own their home today. And the number keeps growing. But some people believe they could never own a home.

Could this be you?

Maybe you're not sure you know enough about the process of buying a home or you're intimidated by it. Or, you worry that you can't afford to buy a house because you haven't saved enough money.

Maybe your credit has blemishes. Or, you've never established a relationship with a financial institution or credit company and have no credit at all.

Perhaps you're not a U.S. citizen or permanent resident and you don't plan to live in the U.S. very long. Or, you have difficulty speaking and understanding English and would be less intimidated if you could work with people who speak your native language.

Think again!

These concerns don't have to be obstacles to homeownership. With the right information, the dream of homeownership could be within your reach!

11

Are You Ready to Buy a Home?

Use these questions to help you decide if you might be ready to buy a home.

1) Do you have a continuous, reliable source of income?

2) Have you been employed continuously for the last two years even if it has not been in the same job, and is it likely to continue?

3) Do you have a checking and/or savings account established with a bank, credit union or other financial institution? Or, if you don't, do you keep accurate records of paying your bills regularly and on time?

4) Do you file an income tax return with the IRS each year, even if you are not a U.S. citizen?

5) Do you pay your bills on time?

6) Is your total monthly debt (all credit cards, car loans, etc.) manageable? Can you afford those debts and a mortgage?

7) Are all of your routine financial obligations accounted for in your total debt?

8) Do you have some money saved for a down payment? (Some affordable mortgages require no money down but others require a small down payment.)

9) Do you have some money saved for closing costs?

10) On a monthly basis, can you afford the mortgage payment as well as other expenses, including electricity, water, repair and maintenance costs, and any financial obligations you may have towards family members, such as allowances for your children or money you regularly send to relatives in another country?

11) Do you have time to take care of a house—including responsibilities like mowing the lawn and making repairs?

12) Do you have time to devote to buying a home right now? Or are other commitments, like taking classes at night, a priority?

13) Do you have money to cover moving expenses?

14) If you've experienced financial difficulties in the past, can you prove that it was due to events beyond your control?

If you answered "no" to any of these questions, concentrate on strengthening those areas. You can do so by following the steps described in the previous sections of this guide and also taking a homebuyer education class in your area. These classes are a good source of information and will help you prepare for homeownership.

If you can answer "yes" to most of these questions, you are probably ready to think seriously about owning your own home.

Why Own a Home?

You Build Equity!

In the early years of most mortgages, the majority of your monthly mortgage payments go towards paying the interest on your mortgage. Over time, an increasing amount of the monthly payment goes towards reducing the mortgage balance, or "principal." This is called "amortization."

> **Stay on Course**
>
> ***Did You Know?***
>
> ***Most people in the U.S. buy a home with a mortgage, not all up-front cash.***
>
> Homeownership can be a worthwhile investment even if you only plan to live in this country for a few years. Often, you can build up enough equity—or savings in your home—in a few years that it's worth the investment you make today. It's easy to establish credit to get a mortgage. One way is to set up a checking and/or savings account with a financial institution. Even if you don't have a bank account, you can get a mortgage if you keep accurate records and receipts of paying your rent, utilities, and telephone bills on time, every time.

As you make payments, you reduce the principal and increase your share, or "equity," in your home's value. If your home increases in value through "appreciation"—an increase in the market value of a home—your equity will build even faster.

Building equity in your home is important. For many people, it lets them plan for retirement, pay for college, and attain other future goals.

You Gain Tax Advantages!

When you own a home, you may be allowed to deduct mortgage interest and property taxes from your federal income taxes and from some states' income taxes. These deductions may mean significant tax savings, especially in the early years of the mortgage when interest makes up most of the monthly payment. Consult a tax advisor for information about your individual circumstances.

After calculating your taxes, you may find that it's cheaper for you to buy than to rent.

Keep in mind, however, that to gain these tax advantages, you must file an itemized annual income tax return with the U.S. government, even if you are not a U.S. citizen. For details, see Lesson 7, *Thinking Like a Lender.*

You Can Rely on Monthly Principal and Interest Payment Stability!

If you select a fixed-rate mortgage, you will pay the same monthly principal and interest for the term of your loan. (However, your monthly mortgage payment could increase slightly if taxes and insurance costs go up throughout the term of the loan.) Unlike renting, this type of payment will remain the same month after month, even when inflation leads to higher prices.

You Can Have a Place for Your Family and Relatives to Live and Gain a Sense of Community!

When you own a home, you can be secure in knowing that your family will have a place to live. When you rent, you might not always be able to renew your rental contract and then will have to find a new place to live.

Owning a home also allows you to get involved in the well-being of your community. You may feel a greater sense of belonging by owning your own home.

Once your mortgage is paid in full, the home is yours. You can also pass your home on to your children or other relatives as an inheritance.

Rent or Buy?

It's a personal decision. Decide what's best for you and your family.

Renting

- Free of maintenance obligations.
- Not committed to staying in a house or neighborhood.
- Can move quickly.
- Free of costs, such as homeowner's insurance and property taxes.

Buying

- Build equity.
- Tax advantages*.
- Stable monthly payments.
- Strong sense of community.
- Place for family and relatives to live.

**Consult a tax advisor about potential tax advantages.*

Helpful Hints

Use these additional tips to help you figure out what you can afford to spend on a home.

- Create a spending plan with your estimated mortgage payment; include taxes and insurance plus the costs of any homeowner's association or condo fees.
- Include any financial support you send each month to relatives living in another country.
- Include utility costs and future home maintenance repair costs in the spending plan.
- Remember your other goals, like college and retirement.
- Select a mortgage amount that allows you to meet your long-term goals and needs.

11

Stay on Course

How Much Can You Afford to Spend?

For a general idea of your homebuying power, multiply your annual gross income by 2.5. Example: $39,000 x 2.5 = $97,500

Your gross annual income is the income you earn in a year before taxes and other deductions. It can also include rental income, self-employed income, income from alimony, child support, public assistance payments, and retirement benefits.

Remember that just because a lender qualifies you to buy a certain amount, it doesn't mean that you can afford or be comfortable with the monthly payments. Decide for yourself.

Down Payments and Closing Costs

How much money do you need to buy a home?

You'll most likely need money for a down payment on a mortgage. Keep in mind that with some mortgages, however, you don't need to make a down payment. You'll also need money for closing costs and other housing-related costs, such as moving and repair costs.

Down Payments

A down payment is a percentage of the value of the property and is determined by the type of mortgage you choose. Down payments typically range from 0% to 20% of the property value.

You also might be required to have private mortgage insurance, called PMI, or government mortgage insurance, called MIP (also known as mortgage insurance premium), if your down payment is less than 20%.

Closing Costs

Closing costs include points, taxes, title insurance, financing costs, and items that must be prepaid or escrowed and other settlement costs. These costs generally range from 2% and 7% of the mortgage amount.

You'll receive an estimate of these costs from your lender after you apply for a mortgage. Some mortgage programs provide assistance with closing costs. Discuss this option with your lender.

Other Costs

In addition to the down payment and closing costs, you'll also have to pay for move-in expenses, including:

- Van rental or moving company fee.
- Changing the locks on doors, installing window bolts and smoke detectors.
- Deposits and start-up fees for utilities, phone, cable, trash removal, and other services.
- Immediate repairs or work your home may need, such as cleaning and painting.
- New appliances, if necessary.
- Equipment, such as lawn mowers and hoses, if needed.
- Decorating and furniture, if needed.

Finding a Mortgage Lender

Once you decide to proceed with homeownership, you'll need to prepare to get a mortgage. You can get a mortgage from many different sources, like mortgage banking companies, commercial banks, community banks, credit unions, and other financial institutions. Mortgage brokers may be a source of information for different mortgage products available from a variety of sources.

Some places to start getting information include:

- Your own financial institution. Sometimes financial institutions can offer better mortgage terms to current customers.
- Real estate professionals
- Relatives, friends, and co-workers who own a home
- Homeownership education providers
- Your local newspaper, telephone book, or the Internet
- Churches or places of worship
- Employers
- Freddie Mac's homebuyer education website, available in English and Spanish:
  Buying and Owning a Home **(www.FreddieMac.com/homeownership)**
  El Camino a su Propia Casa **(www.FreddieMac.com/homeownership/espanol)**
- National Association of Hispanic Real Estate Professionals (NAHREP) ***Realestateespanol.com***, available in English and Spanish.

Additional Resources

City and state housing agencies and nonprofit organizations can refer you to special programs in your area designed to help homebuyers including:

- NeighborWorks® America ***(www.nw.org)***
- National Council of La Raza (NCLR) ***(www.nclr.org)***
- National Puerto Rican Coalition (NPRC) ***(www.bateylink.org)***
- Habitat for Humanity ***(www.habitat.org)***
- ACORN ***(www.acorn.org)***
- National Urban League ***(www.nul.org)***
- The Enterprise Foundation ***(www.enterprisefoundation.org)***
- National Foundation for Credit Counseling, which now includes Consumer Credit Counseling Services (CCCS) agencies ***(www.nfcc.org)***
- Local Initiatives Support Corporation (LISC) ***(www.liscnet.org)***
- U.S. Department of Housing and Urban Development (HUD) ***(www.hud.gov)***
- Homeownership education providers
- Federal Deposit Insurance Corporation (FDIC), which includes Money Smart ***(www.fdic.gov)***
- National Association of Real Estate Brokers (NAREB) ***(www.NAREB.com)***
- Asian Real Estate Association of America (AREAA) ***(www.areaa.org)***
- National Association of Realtors (NAR) ***(www.realtor.org)***

Types of Mortgages

There are many different types of mortgages. It's important to shop around to find the mortgage that's right for you. The mortgage rate and length, or term, as well as points are all factors in deciding which mortgage is right for you.

The type of mortgage is also an important part of the decision. Some of the most common mortgages available today include:

- ***Fixed-Rate Mortgages:*** Fixed-rate mortgages are stable and offer long-term savings. Because the interest rate never changes, the monthly principal and interest payment never changes either. Your payment could go up a little, however, if property taxes and insurance costs go up. A fixed-rate loan is the most common loan for first-time homebuyers.
- ***Adjustable-Rate Mortgages:*** Adjustable-rate mortgages (ARM) usually start with a lower interest rate, so your monthly payments are lower. This allows you 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. It's important to understand all the aspects of ARMs before you make your decision. ARMs are a good choice if you like to take advantage of favorable market conditions and/or expect your income will increase over the life of the loan. However, if you decide to later refinance into a fixed-rate mortgage, you will incur closing cost expenses.
- ***Balloon/Reset Mortgages:*** Balloon/reset mortgages may be a good choice for homebuyers who don't expect to own their home past the maturity date of the balloon note: 5 or 7 years, for example. At the end of that time, you must sell your house or get a new loan, called a refinance. Expect to pay fees associated with a refinance.
- ***Graduated Payment Mortgages:*** With this mortgage, you can start out making lower monthly payments; then over a period of years, your payments go up slowly. When the payments reach a certain amount, they stay fixed at that amount for the rest of the loan. Graduated payment loans are good if you think your annual income will go up.
- ***Interest-Only Mortgages:*** Instead of paying part of the principal (the loan amount) each month plus interest charges, interest-only loans require that the borrower pay only the interest for the first 5 or 10 years. After that, the borrower must either pay the balance of the loan or start paying both principal and interest monthly for the remaining period, perhaps 20 to 25 years. The potential risks are significant for interest-only loans, especially if the interest rate on the loan increases, and the required payments of both principal and interest are well beyond your ability to pay each month. After the interest-only period ends, the monthly payment will be substantially higher than if you had used a traditional 30-year mortgage loan.
- ***Option ARMs:*** Also called "flex" ARMs, these loans let the borrower decide how much to pay from one month to the next based on a few choices. The options range from making a full monthly payment (what you normally would pay in principal and interest for a traditional mortgage) to a "minimum" payment that does not fully pay for the interest due, but the shortfall is added to your loan balance. If you do not have enough money for your regular monthly payment, you can send in a low payment and not be defaulting on your loan.

Remember to shop around for the best mortgage rates. Contact lenders at banks and credit unions as well as mortgage brokers. Keep in mind that the lowest mortgage rate may not always be the best choice for you. Rates are important, but also consider the overall cost of the loan.

Look at other costs such as loan and origination fees, and discount and origination points. Be sure to ask the lender exactly what he or she is quoting to you. Ask what the Annual Percentage Rate (APR) of the loan is. The APR takes into account the interest rate and fees.

Ask for a "Good-Faith Estimate" (GFE) in writing from each lender that you work with so you understand all of the costs and you can compare lenders. Required by law to be given to you by the lender after you submit an application, a GFE is a written statement itemizing the approximate costs and fees for the mortgage.

Affordable, Low Down Payment Mortgages

Saving enough money for a down payment can be hard and meeting lender underwriting requirements can be challenging. Sometimes this prevents people from buying a home.

However, many mortgage lenders offer low down payment mortgages and mortgages with more flexible underwriting to help people with these financial circumstances. Be sure to shop around and ask various lenders for all the specifics related to loans with these types of options.

Some mortgages need as little as 0% down payment (excluding closing costs). Others raise the maximum debt-to-income ratio, allowing you to qualify for a mortgage payment that is a larger percentage of your monthly income.

Ask your lender about fixed-rate mortgages with low down-payment features like:

- Small down payments (0% to 5%).
- Additional sources of money for the down payment, like a federal, state, or local government agency, nonprofit organization, employers, private foundation, or family member.
- Expanded debt-to-income ratios up to 42%.
- Options for people with limited incomes in high-cost areas.
- Homeownership education programs.
- Lower mortgage insurance costs.
- Seller contributions to your closing costs.
- Options for people who buy in designated areas.

Stay on Course

New to the U.S.?

If you're a newcomer to the U.S. or your cultural beliefs and traditions have prevented you from establishing a banking relationship or traditional credit history, don't worry. Many lenders today help people with nontraditional credit become homeowners through special underwriting flexibilities built into the mortgage products they offer.

If this is your situation, keep in mind that you can still qualify for a mortgage even if you:

- Do not have a bank account.
- Have a limited or no credit history.
- Are a foreigner and do not have permanent resident status.
- Have been employed in the U.S. for less than two years.
- Pool your funds with your extended family.

Ask lenders about these flexibilities when you go to look for a mortgage.

Finding a Real Estate Professional

Real estate professionals earn their living matching homebuyers with sellers. They are licensed by the state where they live and have taken classes in subjects such as real estate law and finance.

Working with a real estate professional to find a house can save you time and sometimes can save you money. They know what homes are worth and can tell you if a seller is asking too much money for the house being sold.

Real estate professionals can help you find the best home to meet your needs. They can also help with parts of the mortgage process but their role is different than a mortgage lender's role.

Ask your family and friends for the names of real estate professionals with whom they've worked. You may contact one of the organizations on page 59 for a list of housing professionals in your area. Or, review newspaper ads for a listing of open houses. Stop by and talk with the real estate professional showing the house.

You'll want to choose a professional that makes you feel comfortable and can provide knowledge and services you need. If you prefer to speak Spanish or another language, for example, be sure to find a real estate professional that also speaks your preferred language.

Most real estate professionals' services are paid a commission by the seller of the house when the sale closes. The buyer does not pay the real estate professional unless they have contracted with the buyer's agent. A buyer's agent is a real estate professional who is paid for by the buyer and therefore, solely represents the interests of the buyer.

1

Questions to ask a Real Estate Professional

- How long have you been in real estate?
- Are you a full-time real estate professional?
- Are you familiar with the community in which I want to look?
- Do you speak languages other than English?
- How many homes have you sold in the last year?
- What is the average sale price of the homes you sold last year?
- Do you usually work with sellers or buyers?
- How many buyers are you presently working with?
  Are you acting as the exclusive buyer's agent?
- How many sellers are you presently working with?
- What do you consider your strengths?
- Can you provide the names of three homebuyers as references?

For Example

If You Speak Spanish

Contact the National Association of Hispanic Real Estate Professionals at ***www.realestateespanol.com*** for a list of Spanish-speaking real estate professionals in your area.

Homeownership Education and Credit Counseling

If you believe that you are not quite ready to begin the process of buying a home because of your personal circumstances, don't give up. Divorce, losing a job, emergency medical expenses, other circumstances, and simply not having the financial literacy skills to manage your money well can all result in credit difficulties.

There are other resources you can check out to help you build your credit and prepare to buy a home.

Homeownership education can help you become a successful homeowner. It can provide more information on:

- Preparing for the mortgage approval process.
- Understanding the issues involved in qualifying for a loan.
- Understanding the importance of establishing a strong credit reputation.
- Identifying the important elements of home selection.
- Selecting a home that is affordable over the long term.
- Learning about the financing and closing processes.
- Understanding how to avoid mortgage delinquencies, defaults, and foreclosures.

Credit counseling can help you improve and build back your credit. A credit counselor can provide:

- Credit education
- Confidential budget and debt counseling
- Debt repayment programs
- Financial management education

Look in your own community for these valuable nonprofit resources:

- ***National Foundation for Credit Counseling***, a network of consumer counseling agencies. Check the yellow pages or visit ***www.nfcc.org*** for the office closest to you. You can also call NFCC directly for a referral in Spanish at 1-800-682-9832.
- ***NeighborWorks® America*** is a national network of nonprofit organizations who support affordable housing and homeownership initiatives in local communities. Check the yellow pages or visit ***www.nw.org*** for the office closest to you.
- ***Other nonprofit homeownership education groups in your area.*** Check your yellow pages under "credit counseling." Or, on the Internet, search for topics such as "debt counseling," "consumer credit counseling service," or "homeownership education."

Preserving Homeownership: Protecting Your Home Investment

12

Congratulations! If you've made it this far in the guide, you're either a homeowner, or you're seriously considering it. Here you'll find that the skills you've learned up to this point—like understanding your credit score, managing your money, planning ahead, and avoiding financial traps—all come together to help you maintain your good credit and become a successful homeowner for the long term.

Responsibilities of Homeownership

For many families, the purchase of a home is the largest single investment they'll ever make. Because you are now a homeowner, you too can benefit from all of the advantages of your investment. It's also important, however, that you know how to protect your home and your family from the potential storms—natural and financial—of life. Life happens, and while we can't always predict what's coming our way, there are some things we can do to prepare for, prevent, and even recover from life's challenges.

Without a wide enough safety net, some homeowners find their homes in jeopardy, the worst-case scenarios resulting in foreclosure. While it's difficult to consider the possibility of ever losing your home, understanding what could put you at risk and learning how to avoid those risks is really the best way to ensure your long-term success.

Spend and Save Wisely

The very first things you should do as a homeowner is to reconsider your goals and update your monthly spending and savings plans. Include all of the new and anticipated costs of homeownership, and be sure that saving remains a priority as well. While homeownership does bring the responsibility of additional expenses, it is more manageable if you plan ahead. *See Lesson 2 Managing Your Money to update your spending plan and to find tips for saving money.*

Stay on Course

Managing Your Money as a Homeowner:

- Know your variable expenses, including utilities and home maintenance. Allocate a month's worth of the year's expected total in your spending plan.
- Plan ahead for large or periodic expenses, such as homeowner association (HOA) fees and property taxes. Add things you may need, like appliances.
- Consider your mortgage your highest priority, and always pay it on time.
- Save at least three months of your income in an emergency savings account for protection against unexpected emergencies, job loss, major home repairs, etc.
- Consider making additional payments on your mortgage to save money.

Did You Know?

Paying an extra $50 per month on a $100,000, 30-year loan at 7 percent could reduce the loan term by more than five years and save $32,000 in interest. Be sure to inquire about any prepayment penalties.

Borrowing Against Your Home Equity

Home equity is the difference between what your home is worth and the total amount you still owe. People most often borrow against their home equity to make home improvements, pay for education, consolidate debt, invest, etc.

Stay on Course

Before You Borrow Against Your Home Equity:

- Get quotes from at least three lenders.
- Shop around to compare similar combinations of interest rates, points, closing costs, fees, and the monthly mortgage.
- Compare the annual percentage rate (APR), the total annual cost of borrowing.
- Know whether there are prepayment penalties.
- Seek help from a reputable housing expert.

Ways to Borrow Against Your Home Equity

- ***Refinance***—Refinancing is when you receive a new mortgage and use some or all of the proceeds to pay off the old mortgage. When you refinance, you complete many of the same steps you did when you received the first mortgage to buy a home.
- ***Home Equity Loan***—A second mortgage secured against your home. A home equity loan usually has fixed interest rates that are higher than the first mortgage.
- ***Home Equity Line of Credit***—A revolving line of credit secured against your home, similar to a credit card. You can borrow money (up to the amount that is approved) and pay it back as many times you need during the term of the loan.
- ***Home Equity Conversion Mortgage (HECM)***—A type of reverse mortgage that is an option for homeowners who are at least 62-years-old and own their home. Under certain circumstances, these homeowners can choose to receive monthly payments or access a line of credit instead of making monthly mortgage payments for as long as they continue to live in the home.

Look Before You Leap

Before borrowing against your home equity, make sure you have a good reason. These loans can be structured as 10-, 15-, or even 30-year loans—that's a long time to pay it back! If you use the funds for a new car or vacation, the car will likely need to be replaced and most of your vacation memories will be long gone before you finish paying off your loan. While consolidating debt is also an attractive option, it's only worthwhile if you can change your spending habits to avoid taking on new consumer debt.

Maintaining, Repairing, and Improving Your Home

Keeping your home in good repair can help prevent costly problems from occurring. It can help mechanical systems run more efficiently and last longer, and it can have an enormous impact on a house's market value.

Before You Start a Home Repair or Improvement Project

Do . . .

- Do your homework to understand your home's maintenance, repair, or improvement needs.
- Consider the "life-cycle costs" of materials or appliances. Over time, for example, hardwood floors are a better investment than carpet.
- Bid the job competitively with at least three contractors who are licensed, registered with the state, and adequately insured. Speak to their references before choosing one.
- Before selecting a contractor, check with the Better Business Bureau or the state Attorney General's office to see if any complaints have been filed against the company.
- Determine how you will pay. If your contractor offers a financing option, scrutinize the deal very carefully. Make sure that the term and payments fit within your spending plan.
- Read the contract carefully. Make sure that it accurately reflects your expectations.
- Keep a record of all progress, payments, changes, etc.
- Know how to settle a dispute. Beware of binding mandatory arbitration, in which a third party arbitrator would decide the outcome of your dispute, eliminating your right to present your case in court.

Never . . .

- ***NEVER*** pay the full amount in advance. Hold up to 30 percent for the final payment to ensure your satisfaction.
- ***NEVER*** give in to high-pressure sales tactics.
- ***NEVER*** pay in cash.
- ***NEVER*** sign a work contract before you know the terms of your financing and are certain about how you will pay.

12

Emergency Preparedness

Emergencies and disasters strike unexpectedly and can create chaos in your life. Though you can rarely control or prevent disasters, you can certainly plan ahead to be prepared for these emergencies.

Stay on Course

Even a modest storm can cause temporary power outages. Planning ahead for all sorts of emergencies is important.

- Develop an emergency plan with your family.
- Stock emergency supplies, including water and nonperishable food.
- Keep a first aid kit in a convenient location.
- Post emergency phone numbers near phones, and program them into cell phones.
- Keep an up-to-date inventory of household possessions.
- Protect valuable household records.
- Maintain enough insurance coverage to adequately cover the cost of rebuilding or replacing your home.

Visit FEMA's Web site for an online manual on preparing for and recovering from disasters (www.fema.gov).

Homeowner Beware—Avoiding Financial Traps

Because lending transactions often seem complicated, it's not unusual for borrowers to rely on the expertise of professionals for guidance through the process. But what if your "professional" is actually a scam artist or predator looking to push you into a costly or risky situation? With their sweet talk and smooth assurances, these predators are often indistinguishable from legitimate lenders.

Home Title Scam

There are homeowners who have actually been cheated out of the titles to their homes. Here are a few examples of how a title scam could occur:

- Someone offers to give you a loan or help you finance much-needed repairs, and tells you that in order to secure financing, you must transfer your property deed or title so that someone with a better credit rating can obtain the repair loan on your behalf. Unfortunately, once you transfer the deed, the home is no longer yours.
- Someone offers you fast cash for the title to your home, but leaves you saddled with the mortgage obligation.
- Someone offers to take over your mortgage and your title (allowing you to remain in your home as a renter) so you can buy the house back when you get on your feet. Consequently, there's no guarantee that you'll ever own the home again.

Home Improvement Loan Scam

Home improvement scams come in various forms, including the two most common:

- The contractor asks for money up front and leaves after completing little or no repair work.
- The contractor helps you get a loan to finance repair costs that then grow beyond the original estimate and agreement. The repair costs, plus exorbitant hidden fees and high interest rates, become so expensive they're ultimately unaffordable.

Post-Disaster Insurance Scam

Even in the wake of a disaster, homeowners must be on the alert. Insurance scams can happen in a number of ways:

- You're waiting for your insurance claim to be processed when someone offers you a lump-sum payment in exchange for the right to your insurance money. You end up getting much less than the insurance company eventually pays out.
- Your contractor asks you to sign a "direction to pay form" that allows your insurance company to pay the contractor directly, even before the repair work is completed. Don't do this until all work is completed, you've inspected it, and you are satisfied with the final product.
- Someone offers to loan you money for home repairs while you wait for your insurance money. In return, they ask for a post-dated check, your auto title, or your tax refund. These scams are almost always high-interest loans. While they may give you some short-term relief, the long-term cost could be devastating.

Equity-Stripping Foreclosure "Rescue" Scam

For most of us, taking advantage of someone in trouble is unthinkable, but the equity stripping (or equity skimming) foreclosure "rescue" scam does just that. Scam artists seek out homeowners near foreclosure and offer them what they think is a way to stay in their homes. What the homeowner doesn't realize is that in the process, they're signing away the house and the equity. They get to stay in their houses, but suddenly they're just tenants.

12

Foreclosure Prevention

What if—despite your best efforts—you start to have difficulty making your mortgage payments? As unpleasant as it is to consider, there are homeowners who find themselves in this situation; and in cases where they are not able to remedy the situation, they lose their homes to foreclosure.

Foreclosure is a legal process by which the lender takes back ownership of mortgaged property (for example, a home) and sells it because a loan is in default, or in other words, because the owner is delinquent with their mortgage payments. The process of foreclosure is different in every state. In some states, a non-litigated foreclosure can take as little as 32 days. In other states, it's a process that could take more than a year. In either case, the results can be devastating to your credit, making it far more difficult and more expensive to borrow in the future.

How Do Homeowners Get into Trouble?

So how is it that after all the hard work, planning, and saving it takes to buy a house, some people end up losing their homes to foreclosure? There are many reasons why homeowners find themselves in trouble. According to a 2006 study Freddie Mac conducted, unemployment or curtailment of income (36.3%) and illness or death in the family (25%) are the primary reasons homeowners get into trouble.

Job Loss is the Most Cited Reason for Borrower Delinqueny

Reason for Delinquency	2006
Unemployment or curtailment of income	36.3%
Illness or death in the family	25%
Excessive obligation	13.6%
Marital difficulties	6%
Property problem or casualty loss	2.8%
Inability to sell or rent property	1.4%
Extreme hardship	.9%
Employment transfer or military service	.6%
All other reasons	13.3%

Source: Freddie Mac's Workout Prospector

Stay on Course

What Should You Do if You Have Trouble Paying Your Mortgage?

If you experience a change in your financial situation and think that you might fall behind on your mortgage payments, there are some things you can do.

Call your lender!
Call your lender and ask to speak with someone in Default Management. It is a widely-held myth that lenders ***want*** to foreclose on homes. In reality, your lender would much prefer that you pay your mortgage regularly and be a good customer for life. In fact, lenders typically lose money in the foreclosure process, so they are increasingly looking for ways to help homeowners avoid foreclosure.

Contact a housing nonprofit for advice.
The HOPE National Hotline, for example, is dedicated to helping homeowners facing foreclosure. Spanish-speaking counselors are also available. You can call the hotline at (888) 995-HOPE. This hotline is free and available 24 hours every day. For more resources, see Lesson 11, *Becoming a Homeowner,* on page 64.

Avoid scam artists!
Be on the lookout for predators who would take advantage of your misfortune.

Alternatives to Foreclosure for Keeping Your Home

Your lender has access to several options to assist you if you get into financial trouble. Workout options vary from lender to lender depending on the type of mortgage, your credit history, etc:

- ***Reinstatement*** is when you are behind in your mortgage payments but you can make a lump sum payment to catch up by a specific date (including any late fees or attorney fees). Some homeowners borrow funds from family or friends to make these payments. A reinstatement is often combined with forbearance.
- A ***forbearance*** agreement allows you to pay less than the full amount of your mortgage, or pay nothing, for a short period, with the understanding that another option will be used afterwards to bring the account current. Mortgage companies may consider forbearance when you can show that a bonus, tax refund, or other source will let you bring the mortgage current at a specific time in the future.
- A ***repayment plan*** may be in order if your mortgage is past due, but you can now afford to make payments. The lender may agree to let you catch up by setting up a schedule of repayments over six to 12 months by adding a portion of the overdue amount on top of each monthly payment.

- With a ***loan modification***, the lender modifies or restructures your mortgage. Common loan modifications include adding missed payments to the existing loan balance, making an adjustable-rate mortgage into a fixed-rate mortgage, and extending the number of years you have to repay.
- ***Refinancing*** may also be an option. If you have enough equity in your home, your new mortgage could pay off the old loan along with any late fees and attorney fees. Be aware that if your credit history is poor, you may be forced to pay a higher interest rate or a higher monthly payment for the new mortgage.

Stay on Course

What Those in "Good Standing" Have in Common

In 2006, Freddie Mac conducted a Mortgage Literacy study to further investigate the causes of delinquency. The research uncovered that respondents in good standing had some common characteristics that could provide clues or tips for avoiding foreclosure.

- Always pay your mortgage, and always pay on time.
- Live by your monthly spending plan.
- Look for ways to increase your income.
- Invest for the long-term.
- Maintain your good credit.

Alternatives to Foreclosure for Selling Your Home

If catching up on delinquent payments is not possible, or you no longer desire to keep your home, there are still more options:

- If ***selling your home*** is a good option, the lender might agree to put the foreclosure on hold to give you some time to do so. This also gives you an opportunity to walk away with your equity.
- An ***assumption*** permits a qualified buyer to take over your mortgage debt and the mortgage payments, even if the mortgage was originally non-assumable.
- In cases where you sell your home for less than what you owe to the lender, the lender may accept this lesser amount as a ***"short sale"*** or a ***"short payoff."***
- With a ***deed in lieu of foreclosure***, the lender accepts the voluntary transfer of the title of the home back to them in exchange for cancellation of your mortgage debt. This approach may have tax implications for you, and may not be possible if there are other liens against the home.

Getting Your Home, Keeping Your Home

Before you purchased your home, you talked about your goals, prepared a spending plan, paid close attention to how your behavior affected your credit, and maybe even attended homebuyer education classes. Lots of work went into the process that landed you in your home. Ultimately, these same things—spending wisely, planning ahead, and avoiding financial traps—will help to keep you there.

While you can't control all of the ups and downs of life, you can and should take steps to be prepared for them. Buying a home is a huge accomplishment, but also a big responsibility. By taking this responsibility seriously, you can reap the many benefits of homeownership and live in your home with confidence and pride for a long time.

Glossary of Terms

The following credit related terms are contained in the CreditSmart® curriculum. Although alternative definitions may apply, each of the following terms is defined as it relates to its primary use among credit industry representatives.

"A" Loan: .... An "A" loan is the credit industry term used to describe a loan which reflects the best possible interest rate, terms, and conditions. Consumers need to demonstrate good credit in order to secure an "A" loan.

Adjustable-Rate Mortgage: .... Also known as a variable-rate loan, ARMs usually offer a lower initial rate than fixed-rate loans. The interest rate can change at specified time periods based on changes in an interest rate index that reflects current finance market conditions, such as the LIBOR index or the Treasury index. The ARM promissory note states maximum and minimum rates. When the interest rate on an ARM increases, the monthly payments will increase and when the interest rate on an ARM decreases, the monthly payments will be lower.

Amortization: .... Amortization is the term used to describe the process of paying off a loan over a predetermined period of time at a specific interest rate. The amortization of a loan includes payment of the interest accumulated during each payment cycle and a portion of the outstanding principal balance.

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 Fee: .... An annual fee is a once-a-year charge imposed by many credit card issuers. This fee is in addition to the interest charged on purchases and cash advances.

Appreciation: .... Appreciation is the term used to describe an increase in the market value of a home due to changing market conditions and/or home improvements.

APR: .... The APR (annual percentage rate) is the cost of credit expressed at a yearly rate which includes the interest and certain fees that a borrower is required to pay for a loan. The APR tells the annual cost of borrowing money based on the loan amount, interest rate, added fees, and term; thus, it may be higher than an advertised interest rate.

Assets: .... Everything of value an individual or entity owns.

Assumption: .... Alternative to foreclosure that permits a qualified buyer to take over a mortgage debt and payments from the delinquent homeowner.

ATM: .... ATM is the term used to refer to an automated teller machine. These machines typically offer consumers convenient access to fund withdrawals, deposits, transfers, and balance inquiries.

"B" or "C" Loan: .... A "B" or "C" loan is the credit industry term used to describe a loan which reflects less than the best possible interest rate, terms, and conditions. Consumers with negative or derogatory credit may be offered "B" or "C" loans. These loans always impose a higher interest rate and fees.

Bad Debt: .... Bad debt is the term used by the credit industry for loans or debts which have been unpaid by the borrower or have gone into default. Bad debts are typically turned over to a collection company to attempt to collect the outstanding balance of the loan or debt.

Balance: ....The amount of money you have in your bank account. It can also refer to the amount owed in a credit account or loan.

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

Bank:..A federally regulated financial institution that offers you a place to keep your money and uses it to make more money. Banks make loans, cash checks, accept deposits, and provide other financial services.

Bankruptcy: ....Bankruptcy is the term used to describe the legal process undertaken by individuals in the situation of being unable to pay his or her debts. Although there are several types (chapters) of bankruptcy, consumers generally may explore either Chapter 7 Bankruptcy or Chapter 13 Bankruptcy. Chapter 7 Bankruptcy results in "liquidation" of the debtor's assets, meaning that most assets are sold to pay as much debt as possible. The rest of the debt is forgiven or "discharged." Chapter 13 Bankruptcy is used for "rehabilitation" of the debtor, meaning that at least a portion of all debt is repaid according to a plan set up by the bankruptcy court.

Binding Mandatory Arbitration: ....A third party arbitrator decides the outcome of your dispute, eliminating your right to present your case in court.

Borrower:...Borrower is the term for the person or entity which is using someone else's money or funds to purchase something. The term borrower can generally be used interchangeably with the term debtor.

Branch Manager: ....The person who supervises the bank operations and helps fix problems that cannot be solved by other bank workers.

Capacity: ....Capacity is another term for income. Lenders examine the ability of a potential borrower to demonstrate that his or her income is sufficient to repay a loan.

Capital: ....Capital refers to the cash reserves (savings), investments, or assets possessed by an individual.

Cash Reserves:...Cash reserves is another term for capital. Cash reserves may take the form of savings, money market funds, or other investments which may be converted to cash.

Charge-offs: ....A charge-off is the term used to describe loans or debts which have gone unpaid by the creditor. Simply put, in the case of a charge-off, the creditor "gives up" on collecting payment and reports the "charge-off" to the credit reporting agency for inclusion on an individual's credit report. Most lenders, however, regard "charge-offs" as debts which are still owed.

Checking Account: ....An account that lets you write checks to pay bills or to buy goods. The financial institution takes the money from your account and pays it to the person named on the check. The financial institution sends you a monthly record of the deposits made and the checks written.

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, and items that must be prepaid or escrowed and other costs. Ask a lender or real estate professional for a complete list of closing cost items.

Co-signer: ....A co-signer is a term used to describe an individual who signs a loan or credit application with another person and promises to pay if the primary borrower doesn't pay.

Collateral: ....Collateral is the value of property owned or possessed by the borrower. Relative to home mortgages, collateral is the value of the home the borrower wishes to purchase. If the debtor fails to pay the loan, the creditor may force the debtor to sell the collateral to satisfy the debt or may foreclose and repossess the property to satisfy the debt.

Collection Accounts:........................A collection account is the term used to describe a loan or debt which has been referred by a creditor to an agency whose primary business is to collect outstanding debt obligations. These types of accounts will normally appear on the debtor's credit report.

Compensating Factors: ....Compensating factors is the term used by lenders in relation to examining a borrower's credit strengths and weaknesses. If a buyer is exceptionally strong in one area, such as cash reserves, he or she may be weaker in another area, such as less than perfect credit due to late payments. In this case, the cash reserves may compensate for the derogatory credit.

Credit:..Credit is the concept of using ***tomorrow's*** money to pay for something you get ***today***. Credit is a promise to repay a debt for goods and services. Credit may be extended via several means, including credit cards, personal loans, car loans, and home mortgages.

Credit Counseling:............................Counseling that helps people manage money and credit and prepare them for homeownership.

Credit Grantor: ....Credit grantor is the term used to describe the person, financial institution, or entity which is providing a loan or credit.

Credit History: ....A credit history is a record of credit use. It is comprised of a list of individual consumer debts and an indication as to whether or not these debts were paid back in a timely fashion or "as agreed." Credit institutions have developed a complex recording system of documenting your credit history. This is called a credit report.

Credit Repair Companies: ....Credit repair companies are private, for-profit businesses which claim to offer consumers with credit and debt repayment difficulties assistance in "fixing" their credit problems and/or "fixing" an impaired credit report.

Credit Report or Record: ....A credit report provides a history of your use of credit. Specifically, it's a file maintained by a credit reporting agency that contains information about a person, such as where the individual works and lives; information reported to the credit reporting agency by creditors regarding money borrowed and payments made; and public record information, such as whether the person has filed for bankruptcy.

Credit Reporting Agency: ....A credit reporting agency or credit bureau is a company which collects and retains credit information on all persons using credit. This information is sold to creditors upon the request or application of individual consumers for the extension of credit. This is also commonly referred to as credit bureau.

Credit Risk: ....Credit risk is the term within the credit industry to refer to the level of risk or likelihood of an individual borrower's future or potential default.

Credit Score:......................................A credit score is a numerical value determined by a statistical model based upon past credit behaviors which predicts the likelihood of future loan default.

Credit Union:......................................A federally regulated cooperative financial institution that is owned by the people who use its services. Credit unions serve groups that share something in common, like where they work or go to church. You have to become a member of the credit union to keep your money there.

Creditor:..A creditor is the term used for the person or entity which is providing credit or a loan to a borrower at specific terms and conditions. The term creditor can generally be used interchangeably with the term lender.

Creditworthiness: ....Creditworthiness is the term used to describe the state of, or condition of, an individual's overall credit. Individuals who have established credit and maintained a positive credit history are considered to be creditworthy, i.e., an acceptable risk for the extension of additional credit based upon their ability and willingness to repay past and current debt obligations.

Customer Service Representative or New Account Officer: ....The person who can help you open your account. The representative explains services, answers general questions, refers you to a person who can help you, and provides written information explaining the bank products.

Debit Card: ....A plastic card, sometimes called a "check card." The debit card has a MasterCard® or Visa® logo and a magnetic strip on the back that allows you to pay for goods and services at stores and other businesses that accept these credit cards. When you use a debit card, the money immediately comes out of your bank account.

Debt: ....What is owed to a person or institution for obtaining merchandise or services without immediately paying for them. Usually, a debt is acquired through a loan or the use of credit.

Debtor: ....Debtor is the term for the person or entity which is borrowing money. The term debtor can generally be used interchangeably with the term borrower.

Debt-to-income Ratio: ....A debt-to-income ratio is the mathematical calculation of debts to income. Debts divided by income equal the debt-to-income ratio. Typically, the credit industry recommends that no more than 20% of one's net income should be spent on long-term debts (excluding a home mortgage).

Deed in Lieu of Foreclosure: ....Alternative to foreclosure that allows the voluntary transfer of the title back to the lender in exchange for cancellation of the mortgage debt.

Default:..A default is a failure to meet a payment or fulfill a credit obligation.

Deposit: ....Money you add to your bank account.

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

Direct Deposit: ....A method that your employer or a government agency might choose to give you your paycheck or benefit check. With direct deposit, your paycheck or benefit check is electronically transferred and directly deposited into your account.

Down Payment: ....A portion of the price of a home, usually between 0–20%, not borrowed and paid up front.

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 prior to closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Fees: ....The money that a financial institution charges you for providing you with various services, such as a monthly maintenance fee.

Finance Charge:................................A finance charge is the amount charged for the use of credit services.

Financial Literacy: ....Similar to the term literacy, meaning the condition or quality of being literate, especially as it relates to the ability to read and write, financial literacy is a catch-all term commonly used to indicate one's basic understanding of the primary principles of credit, money management, and financial well being.

Fixed Expenses: ....Fixed expenses are costs or payments which generally do not vary from month-to-month. An example of a fixed expense is a car loan.

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

Forbearance:......................................Alternative to foreclosure that allows the delinquent homeowner to pay less than the full amount of a mortgage payment, or nothing at all, for a short period, with the understanding that another option will be used to bring the account current.

Foreclosure: ....The legal process through which a mortgaged property or home may be sold when a loan is in default.

Gift Letter:..A letter that a family member writes verifying that he or she has given you a certain amount of money as a gift and that you do not have to repay it. You can use this money towards a portion of your down payment through some mortgage products.

Good Credit: ....Good credit is the term commonly used to mean that one's credit has been handled responsibly and that payments have been made on time.

Good-faith Estimate (GFE): ....A written statement itemizing the approximate costs and fees for the mortgage.

Grace Period: ....A grace period is the amount of time before which additional interest, late fees, and/or penalties are imposed for receipt of a loan payment beyond its due date. Not all loans allow a grace period. Grace periods may also refer to the amount of time before a payment is due. Relating to credit cards, the period allowed is usually 20–25 days in which the consumer has to pay off new purchases, if there is no previous balance, without being charged interest.

Graduated Payment Mortgage: ....Start out with low monthly payments which then increase over a period of years. When the payment reaches a certain amount, they stay fixed at that amount for the rest of the loan.

Gross Income: ....Gross income is the amount of income earned prior to any deductions such as for taxes and Social Security withholdings.

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

Home Equity Conversion Mortgage (HECM): ....A type of reverse mortgage that this is only available if the homeowners are at least 62 years old. It lets the homeowners receive part of their equity each month instead of making monthly mortgage payments. The homeowners are not responsible for repaying the mortgage for as long as they live in the home.

Home Equity Line of Credit: ....A home equity loan is a specialized form of a second lien that is also secured against your home. It is a revolving line of credit where you can borrow money (up to the amount that has been approved) and pay it back as many times as you need during the term of the loan. Interest rates for lines of credit are usually variable, but you only pay interest on the amount you borrow.

Home Equity Loan: ....A home equity loan is a loan product which is secured against a home (real estate). Most home equity loans are tax-deductible.

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.

Homeownership Education: ....Offered through community services, it provides information on the mortgage approval process, home selection elements, financing and closing processes, mortgage delinquencies, and foreclosures.

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

Impaired Credit: ....Impaired credit is a term commonly used to indicate that payments have been made beyond the due date and/or that credit reports contain items such as bankruptcies, judgments, liens, charge-off accounts, or other items viewed negatively by the credit industry.

Index: ....An economic indicator a lender uses to compute rate changes utilizing the prime rate, LIBOR, or the treasury bill as an index.

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

Inflation: ....An increase in the general level of prices.

Inquiry: ....The term inquiry is used to describe the process used by creditors to request a copy of your credit report. Inquiries occur every time a consumer fills out a credit application and/or requests the extension of credit. Too many inquiries appearing on a credit report are considered damaging to the report.

Installment Account: .... Installment accounts are a type of credit whereby a consumer signs a contract to repay a fixed amount in equal payments over a specific period of time. Examples of installment accounts may include car loans, furniture loans, and oftentimes personal loans. Also commonly referred to as an installment loan.

Insurance: .... 1/12th of the annual homeowner's insurance premium. This figure will include flood insurance and private mortgage insurance, PMI or MI, if required.

Interest: .... Interest is a charge for using someone else's funds. Interest is typically indicated as a percentage of the amount borrowed.

Interest Rate: .... Interest rates are commonly thought of as the cost of borrowing money.

Interest-Only Mortgages: .... A mortgage where you pay only the interest for the first 5 or 10 years and then you must pay the balance of the loan or begin to pay both principal and interest on a monthly basis for the remainder of the loan.

Interest-Only Payments: .... "Interest-only" loan payments are not amortized. That is, they do not reduce the principal balance of a loan but simply pay the interest.

Joint Accounts: .... Joint accounts are credit accounts which are held or owned by two or more persons. In the case of a joint account, all parties are held equally responsible and liable for payment under the terms and conditions of the loan contract.

Judgments: .... Judgments are formal orders, generally court orders, which are displayed on a credit report if a debt or loan obligation is unpaid.

Late Payments: .... Late payments is the term used for loan or credit payments which do not reach the lender or creditor on or before the payment due date. The indication of late payments on a credit report are very damaging to an individual's credit report.

Lender: .... As stated in the definition of creditor, a lender is the term used for the person or entity which is providing credit or a loan to a borrower at specific terms and conditions. The term lender can generally be used interchangeably with the term creditor.

Lien Waiver: .... A lien waiver is a document which releases a consumer (homeowner) of any further payment obligation for payment of a debt once it has been paid in full. Lien waivers are typically used by homeowners who hire a contractor to provide work and materials to prevent any subcontractors or suppliers of materials from filing a lien against the homeowner for nonpayment.

Line of Credit: .... A line of credit is a preauthorized amount of credit offered to an individual, business, or institution. A line of credit is commonly secured against an asset such as a home (real estate).

Loan: .... Money you borrow from a bank with a written promise to pay it back later. Banks charge you fees and interest.

Loan Modification: .... Alternative to foreclosure that can include adding missed payments to an existing loan balance, turning an adjustable-rate mortgage into a fixed-rate mortgage, or extending the number of years for repayment.

Loan Officer: .... The person who takes applications for loans offered at the bank. The loan officer can answer your questions, provide written information explaining loan products, and help you fill out a loan application.

Loan Servicers:.................................A loan servicer is the term used for the financial institution or entity which is responsible for collecting loan payments. This term is most commonly used relating to home mortgage payment collections.

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

Margin: ....The amount (expressed as 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 a willing purchaser would pay. The value determined by an appraisal is sometimes used to determine market value.

Money Order: ....Similar to a check, a money order is used to pay bills or make purchases in cash where cash is not accepted. Many businesses sell money orders for a fee. It is best to shop around for the best price.

Mortgage: ....A mortgage is a document signed by a borrower when a home loan is made that gives the lenders the right to take possession of the property if the borrower fails to make loan payments.

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

Mortgage Insurance Premium (MIP):...A mortgage insurance premium or MIP is the cost of the insurance which the Federal Housing Administration (FHA) provides to lenders and is paid by the individual homebuyer. MIP is made up of two parts: an up-front cost of 1.50% of the mortgage amount, plus an annual premium of .50% of the loan amount to be paid on a monthly basis. Mortgage Insurance helps to protect lenders from losses in the event of a mortgage default and foreclosure. The annual mortgage insurance premium may be canceled when the mortgage amount is reduced to 78% or less of the property value.

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 Qualifying Ratio: ....Lenders use qualifying ratios to calculate the maximum amount of funds that an individual may traditionally be able to afford. A typical mortgage qualifying ratio is 28/36.

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

Needs:...Needs are the things in life which are required for basic survival. Examples of needs include shelter, food, and clothing.

Net Income:.......................................Net income is the amount of money paid to an employee after taxes and other deductions have been subtracted. Net income is commonly referred to as "take home pay."

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

Online Banking: ....A bank service that allows you to make payments, check account balances, transfer money between accounts, obtain account history, such as deposits and withdrawals, stop payments on a check, and obtain general bank information at any time from any computer with Internet access.

Open 30-day Account: ....Open 30-day accounts are a type of credit whereby a consumer promises to repay the full balance owed each month. Examples may include: local businesses, travel, and entertainment charge cards.

Option ARMs: ....Also called "flex" ARMs, these loans let the borrower decide how much to pay from one month to the next based on a few choices. The options range from making a full monthly payment (what you normally would pay in principal and interest for a traditional mortgage) to a "minimum" payment that does not fully pay for the interest due, but the shortfall is added to your loan balance.

Payment Due Date: ....Every time that money is borrowed, contract language specifies when payments are due. The due date is always indicated and means that the payment must be received on or before the specified date. Grace periods do not eliminate the responsibility of making sure that payments are received by the lender by the due date. In most cases, lenders or creditors who receive payments past the due date will add a late charge and/or additional interest and fees.

PIN: ....For security purposes, credit cards and bank cards require the rightful owner to select and memorize a Personal Identification Number or PIN. This number or code is required in order to utilize the card in an automated teller machine.

PITI:..PITI is an acronym for principal, interest, taxes, and insurance.

Points: ....Points are a one-time charge by a lender to lower the interest rate of a loan. One point is equal to 1% of the loan amount.

Prepayment Penalty: ....Prepayment penalties are charges imposed by some lenders as a penalty for paying a loan off earlier than its original pay off date. Prepayment penalties are common among some of the subprime and/or predatory lending loan products.

Predatory Lending: ....Predatory lending is commonly defined as abusive lending practices that strip equity away from a homeowner. Predatory lending practices may include the following: targeting low-income people with poor credit or elderly homeowners; using high pressure sales tactics; stressing paying only the monthly interest on the loan; having little or no concern about the borrower's ability to repay the loan; packing the loans with single premium credit insurance products; repeatedly refinancing a loan within a short period of time; and charging high points and fees with each refinance. Credit card offers in the mail with low introductory rates to people known to have bad credit are a form of abusive lending.

Predictive Variables: ....Predictive variables are the items which are part of the formula or factors which comprise elements of a credit scoring model.

Prepayment-Penalty Mortgage (PPM): ....A prepayment penalty mortgage (PPM) is a type of mortgage which requires that you pay a prepayment penalty or a fee if you repay your entire loan (or a substantial portion of it) within a certain time period. A "substantial payment" is generally defined as any amount that exceeds 20% of the original principal balance.

Principal: ....Principal is the actual amount of money borrowed or the amount of the loan that has not yet been paid back to the lender. The principal balance of a loan is the borrower's debt.

Private Mortgage Insurance (PMI): Private Mortgage Insurance or PMI is a type of insurance which helps to protect lenders from losses in the event that a homeowner defaults on his or her mortgage and loses his or her home to foreclosure. PMI is generally required by lenders when a homebuyer uses a conventional loan product and pays less than 20% as a down payment. PMI coverage will cost approximately 1% of the loan amount up front, plus an additional .50% annual premium paid monthly. The annual mortgage insurance premium may be canceled when the mortgage amount is reduced to approximately 80% or less of the property value.

Public Record Information: ....Public record information is information on events that are a matter of public record (courthouse records) related to your creditworthiness, such as bankruptcies, foreclosures, or tax liens. The presence of public record information appearing on a credit report is viewed negatively by the credit industry.

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 have specifically contracted with a buyer's agent, the real estate professional represents the interest of the property 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: ....Refinancing a mortgage allows a homeowner to receive a new mortgage and use the proceeds to help pay off the old mortgage. However, there may be closing costs, fees, points, and prepayment penalties.

Reinstatement: ....Alternative to foreclosure which enables the delinquent homeowner to make a lump sum payment in order to bring the loan current.

Repayment Plan: ....Alternative to foreclosure set up with a lender if a mortgage is past due but the borrower can now afford to make payments. A schedule of repayments over six to 12 months adds a portion of the overdue amount on top of each monthly payment to bring the account current.

Revolving Account: ....Revolving accounts are a type of credit account whereby a consumer has the option to pay the debt in full each month or to make a minimum monthly payment based upon the outstanding balance. Examples may include: department stores, gas and oil companies, and bank issued credit cards.

Safe Deposit Boxes: ....A fireproof locked box which is available in various sizes for a yearly rental fee. It provides you with a secure compartment within the bank's vault for the storage of valuables, such as passports, important documents, jewelry, etc. The keys remain solely under the client's control.

Savings: ....Savings is the term used for money which is set aside into an interest bearing or investment account. Savings is oftentimes viewed as the difference between net income and expenses.

Secured Credit Card: ....A secured credit card is a credit card which is backed by collateral (usually cash).

Secured Loans: ....A secured loan is a loan which is backed by collateral and secured against something tangible such as a home (real estate).

Short Payoff: ....If a home is sold (as an alternative to foreclosure) for less than what is owed to the lender, the lender may accept this lesser amount as a "short sale" or a "short payoff."

Spending Plan: ....A spending plan is an itemized list of all of one's expenses. Spending plans are tools commonly used to measure or gauge expenses against income.

Subprime Loan: ....Subprime is the industry term used to describe credit and loan products which have less stringent lending and underwriting (loan approval) terms and conditions. However, as a compensating factor for the higher risk, subprime products charge consumers higher interest rates and fees.

Taxes: ....1/12th of the estimated annual local real estate taxes on the home that is purchased.

Telephone Banking: ....A bank service that allows you to check account balances, transfer money between accounts, obtain account history, such as deposits and withdrawals, stop payment on a check, obtain information on branch hours, and report a lost, stolen, or damaged credit, debit, or ATM card.

Teller: ....The person behind the bank counter who takes money, answers questions, cashes checks, or refers you to the person who can help you.

Terms: ....The period of time and the interest rate agreed between the creditor and the debtor to repay a loan.

Thrift: ....A federally regulated savings bank or savings and loan association that is similar to a bank and makes home loans. Thrifts were created to promote homeownership and must have a majority of their assets in housing-related loans.

Title: ....The right to, and the ownership of, land by the owner. Title is sometimes used to mean the evidence or proof of ownership of land; although another term used for that is "deed."

Title Insurance: ....Insurance that protects lenders and homeowners against loss of their interest in the property because of legal problems with the title.

Truth-In-Lending Act (TILA): ....Federal law which 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.

Unsecured Debt: ....Loans that are not backed by collateral.

Variable Expenses: ....Variable expenses are costs or payments which may vary from month to month. An example of a variable expense is a grocery bill.

Wants: ....Wants are the things in life which are not essential for survival but are desired for comfort, convenience, or status.

Wire Transfer: ....A method of electronically transferring money from one bank to another.

Withdrawal: ....The process of taking money from your bank account. You do this by writing a check, using an ATM, or giving a teller a withdrawal slip.

Freddie Mac

We make home possible®

8200 Jones Branch Drive, McLean, Virginia 22102
www.FreddieMac.com/creditsmart

Publication Number 696 ■