C. L. "BUTCH" OTTER
Governor

GAVIN M. GEE
Director

Contact:	**Jo Ann Lanham**
	Consumer Finance Bureau
Telephone:	**(208) 332-8067**
Email:	**jo.lanham@finance.idaho.gov**

PRESS RELEASE

Financial Literacy Month Tip of the Week

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MORTGAGE QUESTIONS AND ANSWERS

Homeowner and Homebuyer Questions Posed to the Idaho Department of Finance

Boise, Idaho . . .

April is Financial Literacy Month. The Idaho Department of Finance takes this opportunity to share the four mortgage-related inquiries that seem to rise to the top for most Idaho homeowners and homebuyers. On a daily basis, the department answers mortgage-related questions from, and processes complaints for, Idaho citizens who have concerns about their mortgage loan origination process or mortgage servicing company.

Question: I received a letter saying that I should make my mortgage payment to a different company than the one I've been paying for years. How do I make sure my payments are going to the right place?

Answer: Some financial institutions that loan money to consumers for mortgages will handle the day-to-day management of the loan, primarily by processing and tracking incoming payments for principal and interest as well as deposits into an "escrow account" to cover property taxes and insurance. But other mortgage lenders use companies known as "mortgage servicers" to handle these same tasks. It's also common for a consumer to deal with multiple mortgage servicers during the life of a loan if the bank that originated the loan sells it to another bank or changes servicers.

There are rules that mortgage servicers must follow when transferring a loan from one servicer to another. For instance, both your old servicer and your new servicer must notify you of the change in servicers, provide the new contact information, and list the "transfer date" when your old servicer will stop accepting mortgage payments and your new servicer will begin. This notice must be given to you at least 15 days before the transfer date. In addition, the new servicer is not allowed to charge a late fee or treat a payment as late for 60 days from the transfer date if you sent a payment "on time" but to the old servicer. It's important to note that the new servicer cannot change any terms or conditions of your original mortgage. After a change in mortgage servicers it's important to review your loan statements to ensure that your payments are going to the right servicer and that they are applied correctly.

Question: My lender said that my monthly mortgage payment went up because my escrow payment increased. Why would my escrow payment change?

Answer: Escrow payments typically go up because of a rise in property taxes or home insurance premiums. Most lenders require mortgage borrowers to send payments for property taxes and homeowner's insurance to an escrow account, usually as part of the monthly loan payment. So an increase in property taxes or insurance would result in an increase in the escrow payment.

The lender or the mortgage servicer taps the escrow account when each borrower's tax and insurance bills are due to be paid. That way the borrower only needs to make one payment to pay three bills — plus the escrow account

gives the lender confidence that the taxes and insurance payments on the house (the lender's collateral backing the loan) are being paid. Monitor your escrow account by reviewing your monthly billing statement every month to keep track of the amount of money being escrowed for taxes and insurance. If you see a negative balance in escrow on your monthly statement, know that you may have a year-end escrow shortage.

Question: I am going through the mortgage loan process. The loan originator gave me a prequalification letter. Is it different from a preapproval letter? What do these letters promise me as I shop for a home?

Answer: While there are some legal distinctions, in practice there's not a lot of difference between a prequalification letter and a preapproval letter. They refer to a letter from a lender that says the lender is **generally** willing to lend to you, up to a certain amount and **based on certain assumptions**. This letter helps you to make an offer on a home because it gives the seller confidence that you will be able to get financing to buy their home. It is not a guaranteed loan offer. Don't worry about which word lenders use. Some lenders may use the word "prequalification" while other lenders may call the letter a "preapproval." In reality, lenders' processes vary widely, and the words they use don't tell you much about a particular lender's process. The important thing is that the letter you receive provides enough information for sellers in your area to take it seriously. The best way to make sure that the letter you have will serve its purpose is to ask a local real estate agent.

Lenders usually **check your credit** when issuing a prequalification or preapproval letter. Many people wait to get a preapproval letter until they are ready to begin shopping seriously for a home. However, getting preapproved earlier in the process can be a good way to **spot potential issues** with your credit in time to correct them. **Remember, a prequalification letter or a preapproval IS NOT a guaranteed loan offer.**

Question: I'm thinking about getting a home equity loan to help with some large purchases, but I understand that if I have problems repaying I could lose my home. What do I need to know?

Answer: In general, there are two types of loans that let you borrow against a home's equity, which is the value of the house minus the balance of your mortgage. A "home equity loan" involves borrowing money in one lump sum, typically at a fixed interest rate, and with principal and interest payments remaining the same during the life of the loan. A "home equity line of credit," often referred to as a HELOC, enables a borrower to continuously draw on the amount available, usually has a variable interest rate, and allows for interest-only payments for a certain period of time before monthly payments increase to start paying off the debt.

Home equity loan products can provide some important benefits for consumers, including potential access to a large sum of money and the ability to take a tax deduction on interest paid. However, if you're unable to make payments on your home equity loan product, the lender may foreclose on your home because your property is the collateral backing the loan.

It is important to shop around for the best terms before applying for a loan that involves borrowing from the equity in your home. Given the risks involved, use these loans for necessities, such as home repairs or improvements, and make sure you have the resources to pay back the loan. Remember that some HELOCs have low introductory interest rates that can reset at a higher rate. To help consumers who may face challenges paying their HELOCs after a rate increase, the federal banking agencies issued guidance encouraging financial institutions to communicate effectively with borrowers by providing early notice of rate resets and making help available to those who need it. Check the FDIC's website for additional tips and information regarding HELOCs.

Looking for more information? Homeowners and borrowers may visit the Department of Finance's Education link on its website for further information and valuable tips about homeownership and home buying. Also, the FDIC provides tips and information to borrowers on its website at www.fdic.gov.

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Idaho Department of Finance Press Releases and other information can be found on the Internet at www.finance.idaho.gov and may be obtained by contacting the department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.