Jane Walstedt: Now I'd like to ask Lucia Bruce, the Women's Bureau Regional Administrator in Philadelphia, to introduce our first speaker. Lucia….

Lucia Bruce: Thank you, Jane. Good afternoon everyone. Ann vom Eigen is a Consumer Compliance Specialist at the US Department of Housing and Urban Development, Office of RESPA and Interstate Land Sales. She provides guidance to consumers and companies on regulatory compliance with the Real Estate Settlement Procedures Act--that is the acronym for…the meaning of the acronym RESPA--foreclosure law, and other statutes affecting real estate settlements.

RESPA is a consumer protection statute that requires that consumers receive disclosures at various times during real estate transactions and outlaws kickbacks that increase the cost of settlement services. Ms. vom Eigen initiates investigations of RESPA violations.

Prior to working at HUD Ms. vom Eigen formed AvE Solutions, which focused on government affairs and public policy issues affecting the real estate, financial services, and communications industry. She received her J.D. from Georgetown University School of Law in 1987. Good afternoon, Ms. Eigen.

Ann vom Eigen: Thank you, Jane and Lucia. I'm very pleased to be participating in this program because I think it's a really important issue for everyone to focus on in terms of achieving homeownership.

As Lucia indicated, I was asked to participate in this program because our
office administers basically disclosure statutes that [govern disclosures that] every borrower is supposed to receive when they apply for a mortgage and a form that is supposed to be used in every mortgage transaction for one- to-four family federally-insured mortgages in the United States. So we use these forms essentially to kind of structure the way that people approach the actual loan application and the transfer of property.

But we also…because this is a broad kind of educational topic, I've gone through some of the Web pages at the Department of Housing and Urban Development and tried to use these to kind of provide a structure and focus to the way to approach achieving homeownership. These materials are…were provided to the Wi$eUp program, and they're on the Web page – Wi$eUp Web page. I can read the site, but after listening to Jane's analogy, I think I'm just going to assume that you can get to the Wi$eUp Web site. If you'd like to pull the materials down and follow along during the program, you know, feel free to do so. If not, I'll just start talking, and hopefully it provides enough structure that it is an outline, in effect.

The first thing I would caution all of you who are considering buying a home to do is to educate yourself. There are an enormous number of resources on the Web and in materials that are in the common press on how to buy a home. I personally favor the federal or state homeownership guidance programs and mortgage calculators because at least you know they're not designed to encourage people to overspend. They try to be, as Jane pointed out, somewhat realistic indicators of what you will be getting into in terms of the financial commitment that you make when you buy a house.

Most people say there are three traumatic instances in an American's life. First is moving, second is divorce, and the third big traumatic instance is buying a house. It's good and bad. As Jane pointed out, it's an enormous financial commitment. That's a hard thing. But the good thing is most
Americans’ wealth is now in their homes. And that's also a good and bad thing. But as a practical matter, being able to take advantage of the tax code, which Donna will talk about, and purchase a property that is yours, provides you with an enormous opportunity to build your own personal wealth.

Once you consider going in this area, I pulled from our Web page in the Department of Housing and Urban Development a kind of a cheat sheet on the steps that you should consider when you're thinking about buying a home. The first one is number one figure out how much you can afford. Now Jane and I both refer to the calculators--mortgage calculators--that Ginnie Mae, which is also part of HUD, has developed to educate yourself how you can shop for a mortgage. One of the nice features of these mortgage cost calculators is that you can vary the stats that you live with and come out with a decision on how much home you want to buy.

Ideally you'd like to be able to borrow to the maximum extent you can so that you can maximize your growth and wealth, but you also want to be careful that in instances where things may go wrong, you're not overburdened with too much house and not enough money to live on. So when you pull up the first mortgage calculator from Ginnie Mae, the first one they have is the **buy versus rent calculator**. Presumably you're living someplace. Presumably you're paying some kind of rent. There's a box that lets you enter your current rent.

Say you're thinking about buying a $100,000 house--and I ran a couple of examples on a $100,000 house just to see how it would play out and [how] the factors would change. If you want to buy a $100,000 house and you put 10% down, which is a gen…you know, midway in terms of what you might make as a down payment. For a $100,000 house, you have to have $10,000 that you're thinking about putting down, if you’re putting 10% down.
Your standard mortgage used to be a 30-year term. That let you pay over a long period of time. Interest rates--last week we had historically low interest rates of 5%, so you can enter the 5% interest rate. It's going up…went up this week.

Years you plan to stay in this home--say you really like this neighborhood, you'd like to trade up because eventually you hope that your income grows because you're in your 20s and 30s and you'll all get better. You want to stay in this house for 10 years, and then you want to move to a bigger house. You have a tax rate. You can enter that. And then you want to enter the home value increase rate, and I frankly left it zero.

Okay, so what happens? If you're renting now and you're paying $750 a month, but you want to go into a house that's about $100,000, and you think you can handle 10% down, how much are you going to have to pay in a mortgage? Well, the mortgage calculator shows up with an actual mortgage payment of only $433. So if you bought the house, you would actually “save,”--because you're going to end up with equity at the end of making all these payments--$51,000.

On the other hand, how much…if you look at your current rent, and you put 10% down, and it turns out you didn't make all your payments on your credit cards in college, and therefore your credit rating is not great, and instead of a 5% mortgage, you ended up with a 12% interest rate on your mortgage, well then instead of paying $400 a month--roughly $400 a month--for a mortgage payment, you're really paying $790 a month. And is there a real net gain to buying rather than renting? $5000--not much.

FHA, which is the federal program which is basically an insurance program…the government insures that, you know, if something goes wrong and there's a default on the mortgage they'll pick it up, and it increases the liquidity of the
actual mortgage instruments, there's only a 3% down payment required. So what happens if you put down 3% and your interest rate is at 12%? It's a little bit better. You put down less, you get less equity, so renting versus owning it's a net/net maybe for your personal decision.

But the point I'm making is there are a lot of mortgage calculators. It allows you to personalize your own financial plan and to put the information in on your own. Because what you want to do is make sure that you are armed with the facts relating to you and how you personally are going to approach the whole experience of homeownership.

The other thing I put on the outline that's on the Web page is a suggestion to talk--if you're really getting into this--talk to a HUD-approved counselor. I am going to frequently slip into using the acronym of using H-U-D--HUD--for our Department, because it's such an easy way to say it.

HUD-approved housing counselors are people who have been through courses, who have updated information provided by the department and can help you to, for example, we had a question that came in online earlier, help you identify are there state grant programs where you might be able to get additional money that will help you to buy a home. If there's federal money left from a program that was funded in the last few years, is there grant money that help you with this down payment assistance? So they're good in terms of number 1) they don't work for a particular lender; number 2) they're not incentivized in any way to make sure that you buy more house, i.e. get more of a mortgage, than you can afford. So consider them a resource.

The other reason I was asked to participate in this call is that our statute actually provides that we are to develop standardized forms for…that lenders are to distribute when someone first applies for a loan. We would recommend that you use this form for shopping purposes. In the materials on the Web
page is the new—and this is required after January of 2010—Good Faith Estimate. This Good Faith Estimate is a disclosure that you're required…the lender is required to give to every person who applies for a loan.

I'm going to go through and just mention in passing some of the boxes that are used. If you take this form—pull it off the Web page and start to use it yourself—I recommend that you call lenders. That's because if you're calling someone, they can't pressure you as much over the phone as if they're physically with you. Fill out the form.

You can fill out—and this is assuming that you have your condo picked out, you have your house picked out, you pick out your initial loan amount, how much money do you really want to spend, and you develop that based on your calculator, or perhaps a conversation with a housing counselor—you can put in the term of the loan. Is it a 30-year loan? Is it a 15-year loan? What your initial interest rate is there are boxes on the form that indicate. You have to ask can your interest rate rise.

A lot of people got in trouble because they thought they had 5% mortgages, but their…it's something called an adjustable rate mortgage, which is allowed under the instrument to increase 2% every year, or 2% every two years. Well, what is the maximum interest rate I might be paying? Well many of these instruments, yes, you do pay 12%. You were only paying 5% and a low $400 mortgage amount for two years and then all of a sudden you're paying double that. And that's the thing that you need to figure out about these frankly very complicated financial instruments which are mortgages.

You also want to know, you know, if you make your payments on time could you still owe more even if you make your payments on time. There are negative amortization products that…you know, you really want to know what kind of mortgage you're getting. Does your loan have a prepayment
penalty or a balloon payment? The point is you really want to use these forms to try and ask a lender to educate you on exactly what type of mortgage you're going to get. [Editor’s Note: You can find the bolded terms above and below in a mortgage glossary on the Web site of the U.S. Department of Housing and Urban Development at www.hud.gov/offices/hsg/sfh/buying/glossary.cfm.]

There's also language in the form box to help you figure out if you're working with a mortgage broker, which is a fairly common way that most people get mortgages, because the mortgage broker may shop for you, how much you're paying the mortgage broker. And in the calculation you make for the loan application.

It will also…the Good Faith Estimate also has spaces so that you will think about actually what it's going to cost you to get the property transferred to you, which is referred to as the settlement or closing. You're going to need--in addition to just the mortgage you're going to need--the title search and title insurance. That's, as I say, designed to make sure that the property is yours. That, you know, the owner actually has authority to transfer the property to you, that there isn't some error that's going to come out of nowhere, there's no lien or - on the house that won't be paid off when you buy the house, so that you get it free and clear, there's no easements through the driveway, things like that.

Jane Walstedt: Ann, I just want to give you a head's up that you've run about 13 minutes, so...

Ann vom Eigen: Right, I know. Anyway, thanks I appreciate it. The point is there are a lot of forms that are on the Web page. The important thing is you educate yourself on what it is. The lender is required to give you a Good Faith Estimate. Use that for shopping, and then make sure you keep every piece of paper that the lender gives you, so that if there's a problem afterwards, you know that the
loan that you applied for is the loan you get at closing.

Also on the Web page and in the outline I've mentioned another…a number of other documents. There's something called the Special Information booklet, which is, we're required by statute to publish, and that also gives you a lot of information on the terms that are used in this complicated process. And I've also outlined a few other things that you're supposed to get at settlement, like for example an **escrow**. Often, in terms…in addition to you paying your mortgage, the lender will require that you also put aside money for the property taxes, so that the property taxes will be paid on a timely basis, and [for] **homeowner’s insurance**.

So there's a lot to think about in terms of not only the price of the mortgage, but the price of actually staying in the house. And I think that Donna will talk about that a bit in the next segment. And I'll stop there so that other people can pick up.

Jane Walstedt: Thank you so much, Ann. And just in case the listeners don't know where to go, if they have a computer in front of them it's [http://wiseupwomen.tamu.edu/teleconferences.php?date=2009-05-29](http://wiseupwomen.tamu.edu/teleconferences.php?date=2009-05-29). Okay. Thank you so much, Ann. That was a lot of great information.