



The Federal Reserve Board

Home Mortgages:

Understanding the Process and Your Right to Fair Lending



Shop for the mortgage package that best meets your financial needs. If you apply for a mortgage and the lender says you don't qualify, keep in mind that some lenders have stricter credit standards than others. Try someone else. Don't stop shopping after one discouraging experience—or even several.

"Just Right!" You've been looking at houses for months and months, and you have finally found it--the house that's just right. Now, you're anxious to buy your new home, move in, and get settled. But you still have an important task ahead of you—getting a mortgage loan.

This brochure explains about dealing with mortgage lenders. It tells you where to look, what to look for, and what takes place when you apply for a mortgage. Knowing what to expect, especially if you are a first-time homebuyer, may make it easier for you to get through the process.

You'll also learn about your legal rights to fair lending and what you have a right to expect in fair treatment. The Fair Housing Act and the Equal Credit Opportunity Act make it unlawful for a lender to decide whether you qualify for a loan, or to offer less favorable terms, for reasons such as your race, national origin or sex and other prohibited factors.

If you believe you have been unlawfully discriminated against by a lender, or have questions about the treatment you have received, this brochure also tells you where to file a complaint.

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Once you have found the home of your choice, you may think that your shopping days are over. Actually, only the first phase has been completed. Next comes finding a mortgage and payment terms that fit your budget. Where you shop and what you look for are important.

You might start by looking for a mortgage at the bank where you have your checking or savings account. But don't limit yourself. A wide variety of institutions make home mortgage loans, including savings and loan associations, commercial banks, mutual savings banks, and mortgage companies. The mortgages these institutions offer will have varying features. One way to find the creditor with the most attractively priced loan is to look in your local newspaper; check to see if it publishes a shoppers guide to mortgage credit. These shoppers guides are available in many localities and can be used to identify the lenders with low rates. But, basically, the way to find the loan with the most attractive terms is to shop around.

You should have in mind some of the things to look for in a mortgage loan. For example, what types of loans are available from a given institution? Does the lender make privately or federally insured or guaranteed loans? Some lenders offer mortgage loans backed by a federal agency such as the Federal Housing Administration (FHA loans) or the Department of Veterans Affairs (VA loans). Loans that are not government-insured are called conventional mortgages. Insured mortgages may be more attractive than conventional mortgages in some ways--such as lower down payment requirements. But they may be more restrictive in other ways; for example, they may be available only for certain kinds of homes, or for properties whose value is below a specified price.

Other factors important to your mortgage decision are the length of the loan and the down payment required by the lender. The longer the term and the larger the down payment, the smaller your monthly payments will be. The interest rate is important too, and in some cases the amount of the down-payment will influence the interest rate that you pay (the larger the down payment, the lower the interest rate). In addition, mortgage loans may have interest rates that will stay fixed for the life of the loan (fixed-rate mortgages), that may change (adjustable-rate mortgages, or ARMs), or that represent a combination of fixed and variable rates (convertible mortgages). The initial rate of an ARM is generally lower than the rate available on a fixed-rate mortgage; but remember, the rate may change during the lifetime of the loan. Don't hesitate to ask the lender how one loan

differs from another, how the different features of the loan will affect the mortgage, or whether your chances to qualify would improve if you made a higher down payment.

When you're shopping around, you will find that some home mortgage lenders have special programs to assist veterans and low-income or first-time homebuyers. Ask the lender if such programs are available.

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Home Mortgages: The Mortgage Application Process

Some Things to Expect

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The mortgage application process requires considerable paperwork. First there is the application form, which asks for detailed information about you, your employment record, the house you want to purchase, etc. The lender will need documentation pertaining to your personal finances--your earnings, your monthly expenses, and your debts--to help gauge your willingness and ability to repay the mortgage.

Lenders also will examine your file at the credit bureau to learn if you pay your bills on time. A lender may reject your application if the report shows that you have a poor credit history. Thus, you may want to make sure your credit file is accurate before you apply for your mortgage. You have a right to know what information is contained in your credit report and to have someone from the credit bureau help you understand what the report says. The names of credit bureaus can be found in the phone book.

You can prepare for questions about your financial condition by using the worksheets in this brochure. Worksheet 1 (below) helps determine how much money you might have available for a monthly payment--just list all items of income and payments required on debts that won't be paid off within ten months. There's also a place for the estimated mortgage payment quoted by the lender.

To figure the mortgage payment, the lender will begin by asking how much you want to borrow. The maximum loan amount will be determined by the value of the property and your personal financial condition. To estimate the value of the property, the lender will ask a real estate appraiser to give an opinion about its value. The appraiser's opinion can be an important factor in determining whether you qualify for the size of mortgage you want. Lenders usually will lend the borrower up to a certain percentage of the appraised value of the property, such as 80 or 90 percent, and will expect a down

Worksheet 1

Monthly Income (before taxes)

	<i>Borrower</i>	<i>Co-Borrower</i>	<i>Total</i>
Base employment income	\$ _____	\$ _____	\$ _____
Overtime	_____	_____	_____
Commissions	_____	_____	_____
Interest/dividends	_____	_____	_____
Other	_____	_____	_____
Total monthly income			\$ _____

Monthly Payments on Existing Obligations

Automobile loan	_____	_____	_____
Student loan	_____	_____	_____
Credit cards	_____	_____	_____
Alimony, etc.	_____	_____	_____
Other	_____	_____	_____
Total monthly payments			\$ _____

Monthly Housing Expense for New Loan (ask lender)

Mortgage payment (principal & interest)	_____
Real estate taxes	_____
Insurance premiums	_____
Total monthly housing expense	\$ _____

payment making up the difference. If the appraisal is below the asking price of the home, the down payment you planned to make and the amount the lender is willing to lend you may not be enough to cover the purchase price. In that case, the lender may suggest a larger down payment to make up the difference between the price of the house and its appraised value.

When looking at your projected mortgage payment and existing debt, some lenders might use ratios such as "28 and 36" to determine whether you qualify for the loan. These are commonly used ratios.

In the case of "28 and 36," the 28 refers to the percentage of your gross income (before taxes) that may be spent on housing expenses, including principal and interest on the mortgage, real estate taxes, and insurance. The 36 refers to the income that may be spent for payments on all your debts (including the mortgage): the monthly payments on your outstanding debts, when added to the monthly housing expenses, may not exceed 36 percent of your gross income. When you talk to a lender, find out what ratios will be used to evaluate your application. Then use Worksheet 2 to calculate whether you are within the lender's guidelines.

Worksheet 2

Take the dollar amounts from Worksheet 1 and:

For the housing expense ratio,

Divide **Total monthly housing expense** by **Total monthly income** = _____

For the all debt payments ration,

Divide (the sum of **Total monthly payments** and **Total monthly housing expense**) by **Total monthly income** = _____

Be prepared to provide certain documentation about your income (W2s for prior years and year-to-date pay stubs), current debts (account number, outstanding balance, and creditor's address for each), and the purchase contract for the home you want to buy. When you file your application, ask the lender how long the approval process will take. The time may vary depending on the complexity of your mortgage, current market conditions, and whether you have to provide additional information. It's common for a decision to be made within 30 days after the lender receives all the necessary information. Applications for FHA or VA loans may take longer.

If Your Loan Is Denied

If your application is turned down, federal law requires the lender to tell you, in writing, the specific reasons for the denial. Make sure you understand the reasons given—you may be able to find answers or alternatives that will satisfy the institution's lending standards. Even if that doesn't happen, understanding fully why the loan was denied may improve your chances with the next lender you visit. Factors that may affect the loan decision include:

Downpayment

Is your proposed down payment sufficient? If not, perhaps the lender offers other types of mortgages with lower down-payment requirements.

Appraisal

Is the size of the mortgage you need too high, given the property's appraised value? If similar houses in the neighborhood have sold at prices comparable to yours, maybe the appraiser undervalued the property. Suggest that the lender re-examine the appraisal. You also have the right to receive a copy of the appraisal if you have paid for it.

Credit history

Is the lender doubtful—because of your level of debt or credit history—about your ability to make the monthly payment? Ask how your debt ratios compare to the lender's standards. If there were special circumstances surrounding old credit problems, ask for a chance to explain.



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Federal law protects every homebuyer looking for a mortgage loan against discrimination on the basis of race, color, national origin, religion, sex, marital status, age, receipt of public assistance funds, familial status (having children under the age of 18), handicap, or exercising your rights under other consumer credit protection laws. Lenders may not take any of these factors into account in their dealings with you.

For instance, lenders may not discourage you because of your race or national origin from applying for a mortgage loan. Whatever your color, they must offer you the same credit terms as other applicants with similar loan requests. They may not treat your application differently because of your sex or marital status or familial status. In short, they are barred from taking into account any of the factors listed here in their dealings with applicants or with potential applicants. They should:

- Willingly give you an application and other information you need on how to apply for a loan
- Willingly discuss with you the various mortgage loans they offer and give you an idea whether you can qualify for them
- Diligently act to make a decision--without undue delay--once you provide all the information asked for (including, for example, written evidence of how much you make or how much you have in savings), and once they receive other paperwork required for processing the application (such as a property appraisal)
- Not be influenced by the racial or ethnic composition of the neighborhood where the home you want to buy is located.

If you apply for a mortgage and are turned down, remember that not all institutions have the same lending standards. Shop around for another lender. But if the way you were treated suggests the possibility of unlawful discrimination, you might talk to:

Private fair housing groups

Often these groups can walk you through the mortgage process. They can also help you understand whether your experience suggests that the lender is discriminating unlawfully, and can help you decide whether to file a complaint.

Human rights agencies

These are government agencies set up by a city, county, or state government to deal with discrimination.

Attorneys

They can advise you whether the treatment you received gives you legal grounds for bringing a lawsuit against the lender. They can tell you about monetary damages and other types of relief available to individuals who can prove that illegal discrimination occurred.

Federal or state enforcement agencies

They can check the activities of mortgage lenders to make sure they complied with the laws against lending discrimination. When you write, include your name and address; name and address of the lending institution you are complaining about; address of the house involved; and a short description and the date of the alleged violation.

Federal Laws Against Discrimination in Home Financing

The Fair Housing Act prohibits discrimination in housing sales or loans on the basis of race, religion, color, national origin, sex, familial status (having children under the age of 18), or handicap.

The Equal Credit Opportunity Act prohibits discrimination in any aspect of a credit transaction on the basis of race, religion, age, color, national origin, receipt of public assistance funds, sex, marital status, or the exercise of any right under the Consumer Credit Protection Act.

Directory of Federal Agencies

The Department of Housing & Urban Development (HUD) has primary responsibility for implementing the Fair Housing Act.

Office of Fair Housing & Equal Opportunity
Dept. of Housing and Urban Development
Washington, DC 20410-2000
1-800-424-8590

<http://www.hud.gov/hdiscrim.html>

Other federal agencies monitor compliance by particular types of lenders.

National Banks

Office of the Comptroller of the Currency
Customer Assistance Unit
1301 McKinney St.
Suite 3710
Houston, TX 77010
(800) 613-6743

www.occ.treas.gov

State Member Banks of the Federal Reserve System

Division of Consumer and Community Affairs
Mail Stop 801
Federal Reserve Board
Washington, DC 20551
(202) 452-3693

www.federalreserve.gov

Nonmember Federally Insured State Banks

Federal Deposit Insurance Corporation
Office of Compliance and Consumer Affairs
550 17th Street, N.W.
Room PA-1730, 7th Floor
Washington, DC 20429
(202) 942-3100 or
(800) 934-FDIC (934-3342)

www.fdic.gov

Savings and Loan Associations

Office of Thrift Supervision
Consumer Programs
1700 G Street, N.W., 6th Floor
Washington, DC 20552
(202) 906-6237 or
(800) 842-6929

www.ots.treas.gov

Federal Credit Unions

National Credit Union Administration
Office of Public and Congressional Affairs
1775 Duke St.
Alexandria, VA 22314
(703) 518-6330

www.ncua.gov

Other Lenders

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue, N.W.
Washington, DC 20580
(202) 326-3758 or
(877) FTC-HELP, toll free (877-382-4357)

www.ftc.gov

Department of Justice

Department of Justice
Civil Division
Washington, DC 20530
(202) 514-3301

www.usdoj.gov

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