HUD Certification Exam Preparation

Online Study Group
Everyone needs an affordable, stable place to call home.

That’s why we unite 160+ organizations across Illinois in protecting and expanding affordable housing.
Why a Study Group?

• Become familiar with test style
• Reinforce HUD guidelines
• Ask questions among peers
Module Overview

• Overview of HUD Certification Process
• Homeownership
  – Pre-Purchase Process
  – Homebuying Team
  – Mortgage Regulations and Forms
• Practice Questions
OVERVIEW OF HUD CERTIFICATION PROCESS
Exam Highlights

- **CERTIFICATION** = Pass exam + HUD HCA
- Exam Deadline: August 1, 2020
- Not limited to counselors!
- Multiple attempts OK

www.hudhousingcounselors.com/support-exam
Exam Options

Online
$60*

- Special equipment
- Testing environment must be approved prior to registration.

Proctored Site
$100*

- https://www.kryteriononline.com/ Locate-Test-Center
- 800-403-6199 – Kryterion Support

Additional testing prep tips from John Bonin, NWA/RCAC trainer:
https://vimeo.com/248347651/2d105799b6
Becoming Certified

1. Register
2. Take exam
3. Pass exam
4. Register @ FHA Connection
5. FHAC verifies employment
6. Request employment
7. Get FHAC ID

CERTIFIED COUNSELOR!

https://www.hudexchange.info/programs/housing-counseling
Becoming Certified

Housing Action Illinois Affiliates: Contact Bibian Cristino for FHA verification; bibian@housingactionil.org
**Best Practices**

**BEFORE the test**
- ✓ Acronyms
- ✓ Laws/Acts
- ✓ Roles in the HB Process
- ✓ Answer the Knowledge Checks

**DURING the test**
- ✓ Answer what you know **first**!
- ✓ Flag harder questions for later.
- ✓ What is the question asking?
HOMEOWNERSHIP
Homeownership Overview

- Process & Professionals
- Financing, documents, & rights
Ready for homeownership?

Pre-Purchase Education
1-on-1 Counseling
Post-Purchase Education
Homeownership Basics

- Income
- Credit
- Down Payment
- Loan Products
Homeownership Basics

**RATIOS**
- Housing: 28 – 33%
- Debt: 36 – 50%

**DOWN PAYMENT**
- NO PMI: 20% or more
- PMI/MIP: Less than 20%

**CREDIT**
- 640 & up: Financing options
- Below 640: Less options

**FINANCING TERMS**
- Conventional
- Government-backed
## Homebuying Team

<table>
<thead>
<tr>
<th>TEAM</th>
<th>ROLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realtor</td>
<td>Negotiate and arrange real estate sales</td>
</tr>
<tr>
<td>Lender</td>
<td>Makes loans for real estate purchases</td>
</tr>
<tr>
<td>Underwriter</td>
<td>Analyzes the loan application</td>
</tr>
<tr>
<td>Home Inspector</td>
<td>Inspects the home’s structure and mechanics</td>
</tr>
<tr>
<td>Appraiser</td>
<td>Estimates the home’s fair market value</td>
</tr>
<tr>
<td>Closing Agent</td>
<td>Oversees the final transaction or transfer of the property</td>
</tr>
<tr>
<td>Assessor</td>
<td>Determines the value of a property for taxation purposes</td>
</tr>
</tbody>
</table>
Homebuying Team

• Seek referrals from family and friends
• Check the licenses of each professional on your team; search for complaint history
• Shop around!

Note: Illinois’ licensee lookup tool:
https://ilesonline.idfpr.illinois.gov/DFPR/Lookup/LicenseLookup.aspx/LicenseLookup.aspx
Homeownership Basics

FINANCING

$ $ $
Pre-qualification vs. Pre-approval

**Pre-Qualification**
Unverified information, gives an approximation or range

**Pre-Approval**
Verified information via underwriting process; definitive
Pre-Purchase Counseling

Counselors should advise clients to:

• Shop rates within 30 day timeframe

• Compare loan programs from at least 3 lenders

• Refer to HUD’s Shop, Compare and Negotiate booklet regarding terms, fees, and products.
Financing Red Flags

• Borrowing more than you can afford
• Higher than normal interest rate/fees
• Signing incomplete or vague loan paperwork
• Exotic loan features
A.K.A “The 1003”
Heart of loan application process.

Snapshot of income, employment & asset information.

Re-designed in 2016*
Replaced Good Faith Estimate and Truth In Lending

Includes:
- Contact Information
- Loan Terms
- Costs at Closing
- Signature Requirement

Should receive it 3 days after loan application submission.
Loan Documents – Closing Disclosure

- Includes loan terms, projected monthly payments, and total closing costs

- Must receive **3 days** before closing on the loan

- Compare Loan Estimate to the Closing Disclosure terms

---

**Closing Disclosure**

<table>
<thead>
<tr>
<th>Loan Information</th>
<th>Transaction Information</th>
<th>Loan Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date Issued</td>
<td>Borrower</td>
<td>Loan Term</td>
</tr>
<tr>
<td>4/15/2023</td>
<td>Michael Jones and Mary Stone</td>
<td>30 Years</td>
</tr>
<tr>
<td>Closing Date</td>
<td>Purhse</td>
<td>Purpose</td>
</tr>
<tr>
<td>4/15/2023</td>
<td></td>
<td>Purchase</td>
</tr>
<tr>
<td>Settlement Agent</td>
<td>Seller</td>
<td>Product</td>
</tr>
<tr>
<td>Equity Title Co.</td>
<td>Steve Cole and Amy Doe</td>
<td>Fixed Rate</td>
</tr>
<tr>
<td>Filer #</td>
<td>Property</td>
<td>Loan Type</td>
</tr>
<tr>
<td>35-3455</td>
<td>456 Somewhere Ave, Anytown, ST 12345</td>
<td>Conventional</td>
</tr>
<tr>
<td>Property</td>
<td>Lender</td>
<td>FHA</td>
</tr>
<tr>
<td>456 Somewhere Ave</td>
<td>Ricus Bank</td>
<td></td>
</tr>
<tr>
<td>Anytown, ST 12345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale Price</td>
<td>Loan ID #</td>
<td>MIK #:</td>
</tr>
<tr>
<td>$180,000</td>
<td>123456789</td>
<td>0000000121</td>
</tr>
</tbody>
</table>

---

**Loan Terms**

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>$162,000</th>
<th>Can this amount increase after closing?</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>3.875%</td>
<td></td>
<td>NO</td>
</tr>
<tr>
<td>Monthly P&amp;I</td>
<td>$761.78</td>
<td></td>
<td>NO</td>
</tr>
</tbody>
</table>

---

**Prepayment Penalty**

- YES - as high as $3,240 if you pay off the loan during the first 2 years

---

**Project Payments**

<table>
<thead>
<tr>
<th>Payment Calculation</th>
<th>Years 1-7</th>
<th>Years 8-30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal &amp; Interest</td>
<td>$761.78</td>
<td>$761.78</td>
</tr>
<tr>
<td>Mortgage Insurance</td>
<td>+ 82.35</td>
<td>+</td>
</tr>
<tr>
<td>Estimated Escrow</td>
<td>+ 206.13</td>
<td>+ 206.13</td>
</tr>
</tbody>
</table>

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**Estimated Total Monthly Payment**

- $1,050.26
- $967.91

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**Estimated Taxes, Insurance & Assessments**

- $356.13

**In escrow?**

- Property Taxes: YES
- Homeowner's Insurance: YES

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**Housing Action Illinois**

A stronger Illinois, homes at home.
Mortgage Regulations

- ECOA – Equal Credit Opportunity Act
- RESPA – Real Estate Settlement Procedures Act
- TILA – Truth in Lending Act
- HOEPA – Home Ownership & Equity Protections Act
Mortgage Regulations

ECOA – Equal Credit Opportunity Act

Prohibits lenders from discriminating against applicants based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs. Enforced by the FTC.
PROSPA – Real Estate Settlement Procedures Act Act

Prohibits certain practices that increase cost of settlement services (closing costs), such as business relationships, lender services and escrow account practices. Enforced by the FTC
Federal law requires lenders to provide consumers with loan cost information before signing the loan contract. Enforced by Consumer Finance Protection Bureau (CFPB).
HOEPA – Home Ownership and Equity Protections Act

Federal law that requires special disclosures for loans that have high-costs and riskier loan products such as negative amortization, balloon payments, and rates higher than 6.5% for a 1st mortgage and 8.5% for a 2nd mortgage. Enforced by the CFPB.
# Mortgage Fees

<table>
<thead>
<tr>
<th>Cannot Increase</th>
<th>Can Increase up to 10%</th>
<th>Can Increase to any Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fees paid to lender, mortgage broker, or an affiliate of either one</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fees for required service that the lender did not allow the borrower to shop separately for, when the provider is not affiliated with the lender or mortgage broker</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Transfer taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Required services that the borrower selects from the lender’s list of providers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Government recording charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Prepaid interest, property insurance premiums, and initial escrow account deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fees for required services that the borrower can shop for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fees for third-party services the lender does not require</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Homeownership Basics

Insurance
Insurance Coverage

- Structure
- Loss of Coverage
- Contents
- Medical Payments
Insurance Coverage

- Personal Liability
- Add-Ons
- Earthquake
- Flood
Post-Purchase

- HOA Dues
- Special Assessments
- Liens
- Judgements
- Maintenance
- Emergency Preparedness
- Home Improvement Financing
DEFAULT = Unpaid HOA fees, special assessments, property taxes
  • Liens – legal claim
  • Judgements – court order

Consequences: Late fees, reported to credit bureaus, foreclosure

Conventional 60-90 days

FHA 30 days
**Maintenance**

**Home Warranty** – offers protection on mechanical systems

**Energy Efficiency** – lower out-of-pocket costs by purchasing ENERGY STAR appliances, adding insulation, caulking/replacing windows, etc.

**Energy Resources:**
Emergency Checklist

• Prepare
• Safe room
• Plan an escape route from your home
• Identify responsibilities for each family member
• Share critical contact information
Financing after the purchase

- Home Equity Loan
- HELOC
- FHA 203k
- Streamlined 203k
Financing after the purchase

Title 1 Loan  EEM Mortgage
Refinancing

Why Refinance?

- Lower rate
- Low LTV
- ARM
Which describes a homebuyer who would be ineligible as a first-time homebuyer, as defined by most down payment assistance programs?

A. A client who lost a home to foreclosure two years ago.
B. A client who leases out units in a cousin’s rental property.
C. A client who sold a home five years ago for a net profit.
D. A client who lives in a home owned by the client’s parents.
Test Question #1

Which describes a homebuyer who would be ineligible as a **first-time homebuyer**, as defined by most down payment assistance programs?

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B. A client who leases out units in a cousin’s rental property.
C. A client who sold a home five years ago for a net profit.
D. A client who lives in a home owned by the client’s parents.
A client, who is the surviving spouse of a military service member, is interested in buying a home. The client now works at a local nonprofit agency, making $36,000 per year. The client has $4,000 in savings and a credit score of 624.

If a client has just received a commitment from a lender to provide a loan for a fixed loan amount based on a review of the complete loan application package by an underwriter, in what stage of the lending process is the client?

A. Pre-qualification  
B. Loan committee review  
C. Pre-approval  
D. Loan application
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B. Loan committee review  
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D. Loan application
Which borrower information is contained in the Uniform Residential Loan Application (URLA)?

A. Medical information
B. Income tax information
C. Credit information
D. Asset information
Test Question #3

Which borrower information is contained in the Uniform Residential Loan Application (URLA)?

A. Medical information  
B. Income tax information  
C. Credit information  
D. Asset information
Test Question #4 of 18

Which government regulation prohibits a lender from discriminating against a borrower who uses public assistance to qualify for a mortgage loan?

A. Truth in Lending Act (TILA)
B. Equal Credit Opportunity Act (ECOA)
C. Real Estate Settlement Procedures Act (RESPA)
D. Home Ownership and Equity Protections Act (HOEPA)
Test Question #4

Which government regulation prohibits a lender from **discriminating** against a borrower who uses **public assistance** to qualify for a mortgage loan?

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C. Real Estate Settlement Procedures Act (RESPA)
D. Home Ownership and Equity Protections Act (HOEPA)
Test Question #5 of 18

In order to comply with the Know Before You Owe rule, which disclosures were replaced with new versions that more clearly outline mortgage terms to borrowers?

A. Loan Estimate and Closing Disclosure
B. Loan Estimate and HUD-1 Settlement Statement
C. Good Faith Estimate (GFE) and Closing Disclosure
D. Good Faith Estimate (GFE) and HUD-1 Settlement Statement
Test Question #5

In order to comply with the Know Before You Owe rule, which disclosures were replaced with new versions that more clearly outline mortgage terms to borrowers?

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B. Loan Estimate and HUD-1 Settlement Statement  
C. Good Faith Estimate (GFE) and Closing Disclosure  
D. Good Faith Estimate (GFE) and HUD-1 Settlement Statement
Which is the most significant benefit of using a real estate agent?

A. Negotiating the sale
B. Obtaining a home inspection
C. Paying the sales commission
D. Marketing the home online
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The terms Ability to Repay and Qualified Mortgage were defined by regulations implemented by the Consumer Finance Protection Bureau (CFPB) because of what industry-wide problem?

A. Subprime lending  
B. Blockbusting  
C. Loan modification scams  
D. Jumbo lending
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B. **Blockbusting**
C. **Loan modification scams**
D. **Jumbo lending**
Test Question  #8 of 18

Which step does a homebuyer complete in the process of purchasing a home?

A. Select the appraiser
B. Get a home inspection
C. Purchase life insurance
D. Get a home assessment
Test Question #8

Which step does a homebuyer complete in the process of purchasing a home?

A. Select the appraiser
B. Get a home inspection
C. Purchase life insurance
D. Get a home assessment
A counselor’s understanding of a client’s spending habits and use of credit are most important in which step of the homebuying process?

A. Obtaining financing  
B. Determining if homeownership is right for the client  
C. Evaluating housing affordability for the client  
D. Making an offer on a home
Test Question #9

A counselor’s understanding of the client’s spending habits and use of credit are most important in which step of the homebuying process?

A. Obtaining financing  
B. Determining if homeownership is right for the client  
C. Evaluating housing affordability for the client  
D. Making an offer on a home
Which charge cannot change from the Loan Estimate to the Closing Disclosure?

A. Daily interest charge
B. Initial deposit for the escrow amount
C. Government recording charge
D. Fees paid to lender
Test Question #10

Which charge **cannot change** from the Loan Estimate to the Closing Disclosure?

A. Daily interest charge
B. Initial deposit for the escrow amount
C. Government recording charge
D. Fees paid to lender

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Housing Action Illinois

A stronger Illinois begins at home.
Which professional is responsible for estimating a property’s fair market value, based on the sales of comparable homes in the area and on the property’s features. It is generally required by the lender before loan approval?

A. Lender  
B. Underwriter  
C. Appraiser  
D. Assessor
Test Question #11

Which professional responsible for estimating a property’s fair market value based on the sales of comparable homes in the area and on the property’s features. It is generally required by the lender before loan approval?

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B. Underwriter  
C. Appraiser  
D. Assessor
A client is shopping for a loan and submits a loan application to a lender. The client asks for information about possible settlement costs, but the lender says that he needs to see the purchase contract in order to move forward with the process. The lender should have provided which item?

A. URLA  
B. Ability to Repay/Qualified Mortgage  
C. Loan Estimate  
D. Closing Disclosure
A client is shopping for a loan and submits a loan application to a lender. The client asks for information about possible settlement costs, but the lender says that he needs to see the purchase contract in order to move forward with the process. The lender should have provided which item?

A. URLA  
B. Ability to Repay/Qualified Mortgage  
C. Loan Estimate  
D. Closing Disclosure
A client spoke with five lenders. Four of the five lenders quoted interest rates between 4.1% and 4.6%. One lender mentioned a 3.1% interest rate if she signed for it within the next 36 hours. She was very interested in this loan, so she asked for more information (conditions and fees). The lender provided some information about the loan, but nothing included the APR. Which regulation deems this practice unlawful?

A. ECOA  
B. RESPA  
C. TILA  
D. HOEPA
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A. TILA
B. RESPA
C. ECOA
D. HOEPA
A guest gets carbon monoxide poisoning from a home that has a gas leak and no carbon monoxide detector, and sues the homeowner. What type of insurance policy or coverage would best fit their situation?

A. Personal Liability Coverage
B. Structure Coverage
C. Medical Payment Coverage
D. Earthquake Insurance
E. Loss of Use Coverage
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A. Personal Liability Coverage  
B. Structure Coverage  
C. Medical Payment Coverage  
D. Earthquake Insurance  
E. Loss of Use Coverage
Which is a possible outcome for member residents if a homeowner association (HOA) imposed a community assessment?

A. Residents would be required to complete a community survey assessing community-wide activities and programs.
B. Residents would be required to pay a share of expenses related to capital improvements to the common areas.
C. Residents would be requested to complete a community assessment survey about property management performance.
D. Residents would be provided the HOA’s annual report, including an evaluation of the community.
Which is a possible outcome for member residents if a homeowner association (HOA) imposed a community assessment?

A. Residents would be required to complete a community survey assessing community-wide activities and programs.
B. **Residents would be required to pay a share of expenses related to capital improvements to the common areas.**
C. Residents would be requested to complete a community assessment survey about property management performance.
D. Residents would be provided the HOA’s annual report, including an evaluation of the community.
A homeowner has decided to remodel the basement over the next 12 months. The project should cost just under $24,000, and the hope is to borrow the money at a very low interest rate that can be paid off over a longer period of time. Which home financing option would work best?

A. Home Equity Loan
B. HELOC
C. Energy Efficient Mortgage (EEM)
D. FHA 203k Loan
A homeowner has decided to remodel the basement over the next 12 months. The project should cost just under $24,000, and the hope is to borrow the money at a very low interest rate that can be paid off over a longer period of time. Which home financing option would work best?

A. Home Equity Loan  
B. HELOC  
C. Energy Efficient Mortgage (EEM)  
D. FHA 203k Loan
Which item is critical to consider when working with a client to prepare a household system maintenance plan?

A. Cost of original item
B. Local tax codes
C. Finance rate
D. Target replacement date
Which item is critical to consider when working with a client to prepare a household system maintenance plan?

A. Cost of original item
B. Local tax codes
C. Finance rate
D. Target replacement date
Which would be the best location to identify in a household emergency preparedness plan as a safe place to meet in the event of an evacuation?

A. A motel in a neighboring community
B. The family home
C. The nearest police station
D. A local hospital
Test Question #18

Which would be the best location to identify in a household emergency preparedness plan as a safe place to meet in the event of an evacuation?

A. A motel in a neighboring community  
B. The family home  
C. The nearest police station  
D. A local hospital
Remember…

Earnest Money
Confirms the buyer’s interest in a property under contract, usually 1 – 10% of purchase price.

Origination Fee
Usually 1% of the loan amount. Lender fee for making the mortgage. Example: A loan amount of $100,000 with a 1% origination fee, would be $1000

Discount Points
Usually 1% of the loan amount. Charge to reduce the interest rate.
Remember...

First-time Homebuyer
Has not owned a primary residence for at least 3 years prior to purchasing a home.

Estimate purchase price
Calculate 3x gross monthly income

Closing Costs
Fees for final property transfer that are not included in the price of the property, usually 3-4% of purchase price.
QUESTIONS?
Next Webinar: Tomorrow, 1/24

TENANCY