

Your First-Time Homebuyer's Guide

Take a Step Closer to Home Ownership

Table of Contents

Heading Home

Reach for the Dream	3
Why Buy Instead of Rent?	4
So Where Do I Start?	4

The Basics

What is a Mortgage?	5
What Does My Mortgage Payment Include?	5
Mortgage Payment Breakdown	5
How Do I Qualify for a Mortgage?	6
How Much Home Can I Afford?	7
How Large of a Loan Can I Be Approved For?	7
How Important Is My Credit?	8
How Much Do I Need for a Down Payment?	9
What About Closing Costs?	9

Making Choices

What Kinds of Mortgages Are Available?	11
Are There Any Tips to Consider When Loan Shopping?	13
Locking or Floating	14

The Process

How Important is Pre-approval?	15
Loan Approval	16
What Happens Next?	17

Additional Resources

Homebuying Checklist	18
Mortgage Checklist	19
What Makes a House a Home?	20
House Tour	21

Glossary	22
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Heading Home

Reach for the Dream

Buying a home is part of the American dream. It is a significant long-term investment that often represents the foundation of our lives, providing financial and emotional security. It is also the largest single transaction most people ever make. That's why it's so important to choose a home and a mortgage that are well suited to your needs. This guide is designed to help you learn about the home buying process, so that you can make informed decisions.

But you don't have to do it alone. Whether you decide to use online tools or rely upon home mortgage consultants, your mortgage provider is here to help. It is a good idea for you to understand your mortgage options and how much they may cost so you can make an educated decision about the home financing package that best fits your needs. Find a mortgage provider that specializes in tailoring home financing packages to your short- and long-term goals, and ensuring that your financing fits with your unique financial picture. They'll be pleased to work with you and the real estate, financial and building professionals of your choice to make sure finding and financing a home is a friendly and rewarding experience.

You've decided to buy your first home and you want your story to be moving yet simple, with a happy ending.

Why Buy Instead of Rent?

Decades after the phrase “the American dream” was first coined, home ownership is still a meaningful goal for a large number of individuals and families. Buying a home is considered by many to be a wise investment because typically, houses increase in value over time. And, as the years go by, you can build ownership interest, called equity, which you can borrow against. In contrast to renters, most homeowners receive significant tax breaks, because interest paid on a home mortgage is almost always tax deductible. Finally, there’s the personal satisfaction of having a home you can call your own to share and enjoy with friends and family.

So Where Do I Start?

We recommend you begin by asking some key questions.

- What is a mortgage?
- What does my mortgage payment include?
- How do I qualify for a mortgage?
- How much home can I afford?
- How large of a loan can I be approved for?
- How important is my credit history?
- How much do I need for a down payment?
- What about closing costs?
- What kinds of mortgages are available?
- What are my possible financing choices?
- Which loan is right for me?
- Are there any tips to consider when loan shopping?
- How important is pre-approval?
- Who will approve my application?
- What happens after I apply?

This homebuyer handbook answers many of your questions and helps you become more comfortable with the homebuying process. It was designed as a reference tool and includes a useful glossary. We’ve also included valuable checklists that can help with your home shopping process.

The Basics

What Is a Mortgage?

A mortgage is a loan secured by real estate. In other words, in return for the funds necessary to purchase a home, a lender gets your promise to pay back the funds over a certain period at a certain cost. Backing your promise to repay is the property. Should you default, or stop paying the loan, the lender would take over ownership of that property. Typically, the repayment of a mortgage occurs through monthly payments.

What Does My Mortgage Payment Include?

Usually, your monthly mortgage payment is made up of four parts: principal, interest, taxes and insurance (PITI), but it can also include maintenance expenses, such as condominium homeowners' association dues. The principal is the amount in your monthly payment that reduces the original amount borrowed. Over the life of a standard mortgage loan, the entire original amount borrowed is generally scheduled to be fully paid off, or amortized. The interest rate is the fee charged to borrow the outstanding balance for the past month. In addition, a monthly amount may be collected and held in a separate escrow account to cover property taxes, homeowner's insurance and mortgage insurance. Your lender uses the money in the escrow account to pay your tax and insurance bills, as they come due.

Mortgage Payment Breakdown

Principal + Interest + Taxes + Insurance = PITI

Principal is the amount of money you borrow based on the sale price of the home. In the early stages of your mortgage term, your monthly payment includes only a small portion that repays your original principal. As you continue to make payments through the years, a greater portion of your payment goes to reduce the principal.

Interest is the cost of borrowing money. In the early stages of your mortgage term, your monthly payment is mostly interest. As you continue to make payments through the years, a smaller portion of your payment goes to interest.

Taxes are paid by homeowners to local governments, and are usually charged as a percentage of the assessed property value. Tax amounts vary depending on where you live.

Insurance offers financial protection in the event of a loss and has two main components that can be included as part of your payment.

Homeowner's or hazard insurance protects you against financial losses on your property as a result of fire, wind, natural disasters or other hazards. Most lenders will require you to have a homeowner's insurance policy on your home because it will help protect their investment as well as yours.

- Mortgage insurance (MI) is required on certain loans to protect the lender against financial losses if the borrower fails to repay the loan. Usually, whenever the down payment is less than 20% of the home's purchase price, lenders require some type of insurance. Loans insured by FHA/HUD programs require a mortgage insurance premium (MIP), while VA loans require a funding fee. Conventional loans, or those without government backing, can be insured with Private Mortgage Insurance (PMI).

Typically, the portion of your monthly mortgage payment that covers taxes and insurance is held in a special account by your lender. Then, when these bills are due, the lender forwards payment on your behalf to the local government or insurance company. This process is known as escrow. Using escrow for taxes and insurance is an option for the homeowner and not a requirement. Once your mortgage is paid in full, you are still responsible for taxes and hazard insurance.

How Do I Qualify For a Mortgage?

In general, all lenders use the same four basic standards to approve applicants for a mortgage. Different mortgage products have varying guidelines within those standards. The lender looks at what is referred to as the “the four C’s”: capacity, character, capital and collateral.

Income (Capacity)

Do you have steady and sufficient income to make the monthly payments? This income can come from a primary, second, or part-time job(s), overtime and bonuses, commissions, self-employment, retirement benefits, pensions and annuities, public assistance, child support, alimony or maintenance payments, veterans benefits, disability payments or rental property income. In most cases, you need to provide documentation regarding your income. Lenders also offer no documentation mortgage loans for borrowers who qualify based on other criteria. Alimony and child support need not be noted unless you want to have them included as the basis for repayment of the debt.

Credit History (Character)

Have you paid back money you borrowed in the past? Have you been late in making your payments? Have you filed for bankruptcy? Do you have a record of judgments and collection accounts filed? Some lenders do offer special products for homebuyers with past credit problems. If you have a limited or no credit history, a “nontraditional” credit history will be considered. You may need to show paid receipts and canceled checks for rent and utility payments that document a pattern of paying your monthly obligations on time.

Savings (Capital)

Have you saved any money that can be used toward the purchase of your home? The savings can be money in a savings account, certificate of deposit, retirement [401(k)] account, or a gift from a relative or friend. A lender wants to see that you have the capital to fulfill your current obligations as well as your new mortgage. Ideally, you should have enough savings to act as a source of funds for your down payment and several months of reserve funds to cover your anticipated monthly mortgage payments should anything happen to you or your job.

Property (Collateral)

Your lender will require an appraisal on your home to determine its market value in comparison to similar houses that sold recently in the neighborhood. Your lender will also look at the type of the property and whether there are additional fees such as homeowner’s association dues.

If you’d like to be pre-approved for a mortgage loan, you do not need to have a property in mind. You can actually get a conditional approval pending the property appraisal, if you qualify. (Not available in New Jersey.)

Your past financial history is very important because it indicates your willingness and ability to handle the increased financial responsibility of repaying your home loan.

How Much Home Can I Afford?

To answer that question, lenders look at all the elements that make up your financial profile, including your credit history, the cash you have available for a down payment and closing costs, your income and your existing debt and financial obligations. Then, taking the current market interest rate into account, a lender can give you an estimate of the maximum mortgage amount you can afford. By adding your maximum mortgage amount to the funds you plan to use for your down payment, you will know your home purchase price range.

How Large of a Loan Can I Be Approved For?

Two general guidelines are used by lenders to determine the loan amount for which you may qualify. Based on your individual financial profile, these guidelines ensure that your housing expenses and debt payments don't take up too much of your income. These guidelines can help you remain inside your financial comfort zone after you buy a home.

The first guideline, known as the housing expense-to-income ratio (or front-end ratio), compares your proposed monthly house payment (PITI) to your total household gross monthly income. The second guideline, known as the debt-to-income ratio (or back-end ratio), compares your anticipated monthly housing payment to your gross (pre-taxed) monthly earnings and your monthly debt requirements. Monthly debt includes expenses such as credit cards, car loans, student loans, consumer loans plus other financial obligations such as child support and alimony.

It used to be that most loan programs required 28/36 ratios, which meant you could devote up to 28% of your gross monthly income to housing expenses (the front-end ratio), while your monthly housing expenses plus your monthly debt combined could be as high as 36% (the back-end ratio).

Many of today's loan programs offer expanded guidelines and more flexible qualifying ratios (such as a 29/41 ratios) that allow you to devote more of your gross monthly income to your combined monthly debt.

Your home mortgage consultant can help you get a better idea of the maximum mortgage amount you can afford. Depending on your financial profile and the mortgage program you choose, your consultant may use standard or flexible ratios as a part of the qualifying process. Once you have this maximum figure, it's up to you to decide if this is the right amount for you, or if you would feel more comfortable with a smaller mortgage and a lower monthly payment.

How Important Is My Credit?

Your credit report is an important consideration to lenders reviewing your financial profile. If you have a history of paying your monthly obligations on time, that's a signal to a lender that you are likely to make your monthly mortgage payments on time as well. So your credit can be a factor in the kind of mortgage program you may qualify for.

Your credit history can also affect the amount required for a down payment, the amount of money you can borrow in relation to your income, and the interest rate you are offered. But keep in mind that even if you have no established credit history or less-than-perfect credit, there are still loan programs that can help you buy a home.

Here are some steps you can take to establish or improve your credit rating:

- If you've always paid cash or used checks to make purchases and haven't established a credit record, it's a good idea to do so before you buy a home. You can use credit to purchase low-priced items, make prompt payments and pay off the balance.
- Some loan program guidelines allow "alternative" credit records. If you have a limited credit history, your paid receipts and canceled checks for rent and utility payments can help you document a pattern of paying your monthly obligations on time.
- If you already have outstanding loans or credit card debts, try to pay off as many as possible. The amount of monthly debt you are responsible for paying reduces your capacity for taking on housing debt (via the back-end ratio, discussed above).
- Even if you are a consistent, on-time bill payer, you can damage your credit rating by just having a lot of credit cards with large credit lines. Contact any creditors for accounts which you no longer use and request that they close the account.

How Much Do I Need for a Down Payment?

In the past, saving money for a down payment on a home was often the largest obstacle to home ownership with lenders requiring a minimum of a 20% down payment. But today's flexible home loan programs make this issue less of a challenge, with some programs allowing you to put very little down (3% or less). In fact, you may qualify for programs that don't require down payments at all.

Some homebuyers may be eligible for local down payment assistance programs. If one is available in your area, your home mortgage consultant can give you further details.

If you decide to use less than a 20% down payment, your lender may require Private Mortgage Insurance (PMI). These insurance programs protect the lender in the event you do not fulfill your commitment to repay the mortgage.

Today's flexible home loan programs make the down payment less of a challenge than it was in the past.

What About Closing Costs?

Closing costs cover the amount of money you pay to close a mortgage loan aside from the down payment. The amount you pay in closing costs varies among lenders, mortgage products and localities. The closing cost fees generally fall into one of three categories: *out-of-pocket expenses, pre-paid items and points.*

Out-of-pocket expenses usually cover third-party services that are directly charged to you, such as fees for appraisals, attorneys, credit reports, title (deed recording), or tax services. Which services you must pay for varies on the property location and home financing program. If you don't understand what a particular fee covers, or why you are required to pay it, ask your home mortgage consultant to explain.

Prepaid items can vary based on the type of property and the time of the closing, but they generally include homeowner's insurance, mortgage insurance, and fees associated with establishing an escrow account. Escrow accounts are set up by lenders to pay property tax and insurance premiums. Instead of paying the entire premium every six or twelve months, the borrower pays a portion of the cost along with every monthly mortgage payment. This helps the borrower avoid the hassle of planning for the large payments, while reassuring the lender that tax and insurance payments are always up to date. Using an escrow account is an option and not a requirement

Points are fees, with each point representing 1% of your loan amount, that cover the cost of your mortgage loan. Generally, points can be split into two categories:

- **Origination points**: This is an amount collected by the lender for making the loan.
- **Discount points**: As discussed elsewhere in this handbook, this is a fee that allows you to buy down your interest rate. In other words, in return for paying more discount points upfront, you can lower your interest rate and thus your monthly payment.

What About Closing Costs?

(continued)

To make the best apples-to-apples comparison on lenders and home financing packages, be sure that the rates all have the same number of total points and that you factor in the total amount you will be paying in closing costs. While one loan may offer a lower rate, it may also require you to pay a higher number of points at closing and more money out of pocket for you. Also, don't forget to consider loan features and service after closing in addition to the rate, APR, and points when you compare different loan programs.

Your home mortgage consultant can give you information on average closing cost percentages for specific areas and loan programs. And, shortly after you apply for a home mortgage, you will be sent a Good Faith Estimate, which provides details on the approximate costs you will be required to pay at or before closing. While it is only an estimate, it can help you budget for your closing.

Making Choices

What Kinds of Mortgages Are Available?

It's also a good idea to gain a basic understanding of the kinds of home mortgages that are available. As you review the list, keep in mind that these categories widely overlap — for example, a lender may provide adjustable-rate FHA loans and fixed-rate jumbo mortgages. Work with your mortgage consultant to determine the best loan to fit your needs and design a custom financing solution.

Fixed-rate mortgages. The interest rate remains fixed for the life of the loan.

- Offer predictable monthly payments of principal and interest throughout the life of the loan.
- Provide protection from rising rates. No matter how high market rates go up, your interest rate stays the same.
- Generally well-suited to borrowers who plan to stay in their homes for a long period of time, have a fixed or slowly-increasing income, and have a lower tolerance for financial risk.

Adjustable-rate mortgages. The interest rate adjusts periodically to reflect market conditions on pre-determined dates.

- The initial introductory period usually offers a lower rate (relative to fixed-rate mortgages), after which the rate adjusts periodically, based on a market index.
- Borrowers are protected from steep increases in rates through annual and lifetime adjustment caps.
- The initial rate can be locked in for different periods. Most lenders offer introductory periods of one, three, five, seven, or ten years. Typically, the rate readjusts annually after the introductory period.
- Because of the introductory period's lower rate, some borrowers may be eligible for a larger loan amount with an ARM than with a fixed-rate mortgage.
- May be more appropriate for borrowers who may want to sell or refinance early, can afford to make larger monthly payments after the rate adjusts, or are looking to buy a home when interest rates are relatively high.

Jumbo loans. These are loans that exceed a specified size (conforming loan amounts).

- In 2006, jumbo loans on single-family homes exceed \$417,000 (\$625,500 in Alaska and Hawaii).
- Rates are generally higher on jumbo loans than on smaller comparable loans.

FHA Loan. The Federal Housing Administration (FHA) insures a wide variety of mortgages. These loans are designed to meet the needs of homebuyers with low or moderate incomes and feature:

- Low down payment requirements
- Loan limits based on geographic locations
- Generally more liberal qualifying guidelines
- Use of gift funds for down payment and/or closing costs.

What Kinds of Mortgages Are Available?

(continued)

VA Loans. The Department of Veterans Affairs (formerly the Veterans Administration) guarantees mortgages for qualified veterans and active-duty military personnel and their spouses who are first- or second-time homebuyers. VA loans feature:

- Low or no down payment requirements
- A wide range of rate, term, and cost options
- Flexible qualifying guidelines
- Use of gift funds for closing costs

Alternative financing. These programs are designed for borrowers with less-than-perfect credit histories, excessive debt, or previous bankruptcy, foreclosure or tax delinquency.

No Documentation Loans. Designed for borrowers who are self-employed, on commission or whose financial situation may be difficult to document. These loans allow borrowers to apply for a loan based on their credit history and stated income.

Are There Any Tips to Consider When Loan Shopping?

When you're comparing mortgage rates and programs, the following information can come in handy.

Make It a Point to Ask About Points

When inquiring about rates, be ask if the quoted interest rate reflects payment of points. Many loan programs allow you to receive a discounted interest rate by paying a fee in points or origination fees. One point equals 1% of the loan amount, and the more points you can or wish to pay, the more you can lower your rate. Paying points is not a requirement; it's just an option that lenders offer to accommodate the immediate or long-term monthly payment concerns of home mortgage customers.

The Annual Percentage Rate Is the Key

When you're shopping for a home mortgage, make sure you ask lenders for the annual percentage rate (APR) as well as the interest rate, so you compare it accurately to other available mortgage rates. In addition to the interest rate (which determines the amount of your monthly payment), the APR adds in the other costs required to make the loan to determine your loan's total finance charge, expressed as a percentage over the scheduled life of your loan. After you apply for your mortgage, you will receive a Truth-in-Lending Statement. Homebuyers often find this document confusing because it states the APR only, and not the interest rate.

Example: Interest Rate and APR Comparison:

<u>Mortgage Program</u>	<u>Interest Rate</u>	<u>Total Points</u>	<u>APR</u>
30-Year Fixed-Rate Mortgage	7.000%	1	7.170%
30-Year Fixed-Rate Mortgage	6.875%	3	7.249%

This chart is for illustrative purposes only. It assumes \$1,000 in additional finance costs, a \$145,000 loan, and a 20% down payment. Certain closing costs may be charged that are not included in this calculation. Actual rates vary depending on current market conditions, applicant's credit data, mortgage program and the type of property being financed.

The APR reflects the true cost of a mortgage loan over its full scheduled term as a yearly rate because, in addition to the rate of interest charged on the loan, it includes certain other prepaid finance charges. These charges may include, but are not limited to, origination fees, loan discount points, private mortgage insurance premiums and the estimated interest, prorated from closing date to month end.

In this example, the loan with lower interest rate would be more expensive option when the total points are also considered.

Locking or Floating

A lock gives you a specified period of time — from 30 to 120 days — of protection from financial market fluctuations in interest rates by setting the range of pricing available to you. Your rate may still be affected by changes in the loan's characteristics (for example, if you choose to pay fewer points or make a smaller down payment) or in your credit profile.

If you choose to float your pricing, then your rate will fluctuate with the market. The benefit to floating is that you would have the option of locking at a lower level if rates should interest rates decrease. The risk, of course, is that you would face a higher interest rate should interest rates rise before you lock.

Generally, you'll be able to lock once you have found a property and as late as up to five days before closing. Programs that allow you to lock pricing before finding a property may also be available.

When you lock, make sure the lock period allows enough time for your loan to be processed. If your lock period expires before you're ready to take ownership of the house, your loan pricing may be adjusted to reflect current market conditions.

Some loan programs allow a one-time float down option that can be used during the rate lock period. The one-time float down allows you to seek a lower rate should rates drop while your loan is locked, if you qualify.

No one knows if rates will rise or fall, so it's impossible for a home mortgage consultant to tell you whether or not you should lock or float your loan. The decision is yours.

If you are looking to build your home, some lenders provide the ability to lock your pricing for up to one year to accommodate lengthy construction time frames. You may also get this extended lock with an option to re-set your interest rate once during the rate-lock period, provided you qualify at the time you seek the new rate.

The Process

How Important Is Pre-approval?

Before you begin searching for a home, we highly recommend you ask your home mortgage consultant about pre-approval. By completing your mortgage application prior to choosing a home, you can get a pre-approval letter that lets you know how much home you can afford. Getting this pre-approval letter is a smart move because it lets you know exactly how much you can spend, and shows prospective sellers and real estate agents that you're a serious buyer.

In addition, many sellers will require a pre-approval letter prior to reviewing an offer. So lining up your financing ahead of time will help you get your offer in quickly in hot real estate markets.

Completing the Application

Your home mortgage consultant will assist you in completing a *Uniform Residential Loan Application* form. Much of the information on your application can be pre-filled from your credit report, so the amount of information you'll need to provide is not overwhelming. Your home mortgage consultant can tell you what you'll need to have on hand to complete the application.

There are generally six areas that must be filled in:

1. Personal Data

Full names, addresses, and Social Security numbers of all borrowers.

2. Income

The amount and source(s) of income for all borrowers.

3. Assets

Information on all assets you'll be using to qualify for the loan, such as checking and savings accounts, stocks and bonds, retirement plans, and other real estate owned.

4. Debts and Obligations

Information on all outstanding debts and other financial obligations.

5. Credit References

Information concerning loans or debts that have been paid, plus any other references to good credit use.

6. Property Information

Specifics on the property you wish to buy, if you've chosen one.

Loan Approval

After you've completed the application, your lender will need to verify the information you provided and return a decision on your application. This means your lender will review your credit report and other financial information to make an *underwriting* decision regarding the degree of risk involved in lending you money.

If there are any initial questions about your approval decision, the loan application is forwarded to a trained underwriting expert for a full review. Your lender will work with you to offer, if possible, a loan program or loan terms that accommodate your needs and circumstances.

Based on the information from your credit report and the type of property you want to finance, you may need to provide additional documents or letters that:

- Verify the income you'll use for loan qualification
- Confirm your down payment and closing expenses in your bank account
- Clarify any incorrect items on your credit report
- Verify any debts not listed on your credit report

What Happens Next?

You've applied for your mortgage. Now what? This simple, four-step walk through to loan closing will help you understand the procedure and give you an idea of what to expect.

Best of luck in your new home! We hope you found this Homebuyer Handbook to be helpful.

1. Processing

Your home mortgage consultant or mortgage specialist collects the information needed to process your loan. Documentation requirements vary depending on the loan program you apply for and your individual financial and credit profile. If your property does not qualify for an automated valuation or drive-by assessment, an appraisal will be ordered to determine the fair market value of the property you wish to purchase. You will have the option to lock in your interest rate or float your interest rate. It is important to discuss these options with your home mortgage consultant.

2. Decisioning

Many home mortgage applications are approved quickly. On occasion, loan applications need further review. Your lender will evaluate your financing requirements and do everything possible to help approve your application. In the case that your application is not approved, they'll work with you to determine what needs to be done in order for you to obtain financing.

3. Pre-Closing

Prior to closing, sometimes referred to as "loan settlement," your home mortgage consultant may ask you to provide certain insurance and real-estate-related documents. When you are ready to schedule your closing date, all involved parties will be contacted to arrange for the closing to take place at a convenient time and location. The closing procedure and associated fees vary depending on where you purchase. You will be notified of the exact amount you need in order to close and any additional documents you may need to bring.

4. Closing

At your closing, ownership of the property is transferred from the seller to you. A closing agent (an attorney of your choice or a title agency representative, depending on what is customary in your area) coordinates and distributes all the paperwork and funds, according to the terms agreed upon by you and the seller. You become the proud owner of your new home.

Homebuying Checklist

Our homebuying checklist will help you familiarize yourself with the steps in buying a home and track your progress as you work through them.

1. Estimate What You Can Spend on a Home

Sizing up your finances early can prepare you to find the best home loan. Use a few standard guidelines to gauge your homebuying power:

- ☐ Estimate two and a half times annual income.
- ☐ Calculate 28% of before-tax income for monthly housing debt (mortgage payments, property taxes, insurance and any maintenance costs for a co-op or condominium).
- ☐ Determine how much money you've saved for a down payment and closing costs.
- ☐ Get a rough estimate of how much you can afford now with our [How Much Can I Borrow? Calculator](#).
- ☐ Start gathering relevant financial papers needed for your application and be one step ahead of the game. (Our [Mortgage Checklist](#) can help.)

2. Get Pre-Approved

A pre-approval is a letter from a lender to give homebuyers a specific loan amount and loan type. You can get pre-approved before or after you have found a home to buy. However, many buyers find that they have increased negotiating clout if they are already pre-approved when they conduct their home search.

- ☐ Check your credit report, if needed, to make sure there are no surprises.
- ☐ Apply for pre-approval.

3. Find the Right Home

House hunting can be fun and exciting, but you have to do some homework to find the right home for you.

- ☐ Investigate neighborhoods and schools.
- ☐ Conduct a cost-of-living comparison if planning to buy in a different geographical area.
- ☐ Prioritize desired home features. Get started with our [Wish List](#)
- ☐ Choose a real estate professional.
- ☐ Make an offer and negotiate a final price.
- ☐ Have the home inspected.

4. Close the Purchase

If you've followed the steps above, these final stages of the home purchase should go smoothly:

- ☐ Find the best mortgage for you. There are a variety of mortgages. Talk to your mortgage consultants to find the one that best matches your financial situation.
- ☐ Organize your documents and information before you apply. Follow our [Mortgage Checklist](#).
- ☐ Apply for a mortgage formally to obtain a mortgage commitment letter. For homebuyers with pre-approvals, this will be a formal application.
- ☐ Close the loan. A real estate agent, settlement agent, or attorney generally walks homebuyers through the process of meeting contract contingencies and scheduling settlements.
- ☐ Move in and celebrate!

Mortgage Checklist

Be Prepared

When you are ready to apply, please be prepared to provide the following application and property information:

1. Application Information (for all applicants)

- ☐ Home address(es) for the previous two years
- ☐ Your social security number(s)
- ☐ Employment information for the previous two years including employer name, address and phone number
- ☐ Income information including salary, overtime, bonuses, commissions, dividends, interest, retirement and any other source of ongoing income (excluding alimony and child support)
- ☐ Liquid assets including bank name, account type, balance, and source of down payment
- ☐ Other assets including the value of bonds, stocks, life insurance, retirement funds, jewelry, automobiles, etc.
- ☐ Liabilities including creditor names and outstanding balances for all debts including notes payable, 401(k) loans, life insurance loans, stock pledges, alimony, child support, co-sign loans, credit union loans, and other liabilities
- ☐ Real estate owned including property address, market value, outstanding liens, rental income, mortgage payments, taxes, insurance and maintenance dues

2. Property Information

- ☐ Purchase Contract

Planned Unit Development (PUD), Condominium or Co-op

- ☐ Name of Development or Project
- ☐ Phone Number of the Homeowner's Association (if available)

New Construction:

- ☐ Year land or lot was acquired
- ☐ Original cost of land/lot
- ☐ Amount of liens
- ☐ Estimated cost of construction

Refinance Loans:

- ☐ Year property was acquired
- ☐ Original cost of the home
- ☐ Cost of improvements
- ☐ Amount of liens
- ☐ Description of improvements

When you apply for your loan, you'll be asked to pay a fee that can be charged to a major credit card. This non-refundable fee will be applied toward the cost of the property appraisal and credit report. If you apply in person, you have the option of paying this fee by check.

What Makes a House a Home?

1. What age home would you like?
☐ Older Home ☐ New Home ☐ Other _____
2. What style of home appeals to you most?
☐ Rambler/Ranch Style ☐ Traditional ☐ Two Story ☐ Split Level
☐ Contemporary ☐ Manufactured Home ☐ Other _____
3. What type of construction do you prefer?
☐ Wood Siding ☐ Vinyl Siding ☐ Aluminum Siding ☐ Brick
☐ Stucco ☐ Stone ☐ Other _____
4. What size lot are you looking for?
☐ Small ☐ Medium ☐ Large ☐ Not important
5. How many bedrooms do you need?
☐ 1-2 ☐ 2-4 ☐ Other _____
6. How many bathrooms do you need/want?
☐ 1-2 ☐ 2-3 ☐ Other _____
7. Is having a separate laundry room important to you? ☐ Yes ☐ No
8. Is having a separate dining room important to you? ☐ Yes ☐ No
9. Is having a fireplace important to you? ☐ Yes ☐ No
10. Is having a garage important to you? ☐ Yes ☐ No
11. If having a garage is important to you, do you want a:
☐ 1 Car Garage ☐ 3 Car Garage ☐ Attached Garage
☐ 2 Car Garage ☐ Garage with Workstation ☐ Detached Garage
12. Is central air conditioning an important feature to you?
☐ Yes ☐ No
☐ Wall Units Okay ☐ Window Units Okay
13. Do you prefer gas, oil or electric heat?
☐ Gas ☐ Oil ☐ Electric ☐ Doesn't Matter
14. Do you need a fenced yard? ☐ Yes ☐ No
15. Is it important that you be near public transportation? ☐ Yes ☐ No
16. Do you want to be in a specific school district?
☐ Yes ☐ No
☐ Not Important ☐ If so, name of school: _____
17. How close do you want to be to your place of employment?
 _____ Miles _____ Hours ☐ Not Important

**You're sure of one thing.
 You want to buy a home.
 Perhaps you're someone with
 an "I'll know it when I see it"
 attitude, but most people
 have very specific ideas.
 Now is the time to add
 dimension to your dream.
 Begin by asking yourself
 some defining questions and
 then, speak to each person
 who will live in the house
 with you. There are many
 points to consider. Use this
 Wish List to help you decide
 on the features you want at
 your next address. It's a
 worthwhile endeavor, and
 it's fun!**

House Tour

Address

Price Property Taxes

Age of Home

Style of Home

- | | | | |
|---------------------------------------|-----------------------------------|--------------------------------------|--------------------------------------|
| <input type="checkbox"/> Two Story | <input type="checkbox"/> Ranch | <input type="checkbox"/> Split Level | <input type="checkbox"/> Traditional |
| <input type="checkbox"/> Contemporary | <input type="checkbox"/> Cape Cod | <input type="checkbox"/> Townhouse | <input type="checkbox"/> Condo |

Type of Construction

- | | | | |
|---------------------------------------|--|--------------------------------|---------------------------------|
| <input type="checkbox"/> Wood | <input type="checkbox"/> Brick | <input type="checkbox"/> Stone | <input type="checkbox"/> Stucco |
| <input type="checkbox"/> Vinyl Siding | <input type="checkbox"/> Aluminum Siding | | |

Interior Features

Total Bedrooms

Total Bathrooms

- | | | | |
|---|---|-------------------------------------|---------------------------------------|
| <input type="checkbox"/> Living Room | <input type="checkbox"/> Family Room | <input type="checkbox"/> Great Room | <input type="checkbox"/> Dining Room |
| <input type="checkbox"/> Eat-in Kitchen | <input type="checkbox"/> Pantry | <input type="checkbox"/> Disposal | <input type="checkbox"/> Refrigerator |
| <input type="checkbox"/> Gas Range | <input type="checkbox"/> Electric Range | <input type="checkbox"/> Wall Oven | <input type="checkbox"/> Dishwasher |
| <input type="checkbox"/> Laundry Room | <input type="checkbox"/> Washer | <input type="checkbox"/> Dryer | <input type="checkbox"/> Skylights |
| <input type="checkbox"/> Whirlpool Tub | <input type="checkbox"/> Soaking Tub | | |

Good Closet Space

☐ Yes

☐ No

Basement

☐ Yes

☐ No

☐ Finished

Flooring

☐ Carpet

☐ Hardwood

☐ Tile

Utilities

Type of Heating

- | | | | |
|------------------------------------|------------------------------|-----------------------------------|------------------------------|
| <input type="checkbox"/> Hot Water | <input type="checkbox"/> Gas | <input type="checkbox"/> Electric | <input type="checkbox"/> Oil |
|------------------------------------|------------------------------|-----------------------------------|------------------------------|

Insulation

- | | | | |
|-------------------------------------|------------------------------------|-------------------------------|-------------------------------|
| <input type="checkbox"/> Fiberglass | <input type="checkbox"/> Cellulose | <input type="checkbox"/> Foam | <input type="checkbox"/> None |
|-------------------------------------|------------------------------------|-------------------------------|-------------------------------|

Central Air

☐ Yes

☐ No

Plumbing Condition

☐ Good

☐ Fair

☐ Poor

Sump Pump/Drainage System

☐ Yes

☐ No

Connected to Sewer System

☐ Yes

☐ No

Age of Heating System

Age of Water Heater Capacity

Age of Electrical Wiring

Exterior Features & Neighborhood

Backyard Area

Front Yard

- | | | | |
|--------------------------------|--------------------------------------|--|-----------------------------------|
| <input type="checkbox"/> Patio | <input type="checkbox"/> Deck | <input type="checkbox"/> Porch | <input type="checkbox"/> Pool |
| <input type="checkbox"/> Fence | <input type="checkbox"/> Landscaping | <input type="checkbox"/> Expansion Ability | |
| Garage | | | |
| <input type="checkbox"/> 1 Car | <input type="checkbox"/> 2 Car | <input type="checkbox"/> 3 Car | <input type="checkbox"/> Detached |
| Roof Condition | <input type="checkbox"/> Good | <input type="checkbox"/> Fair | <input type="checkbox"/> Poor |
| Sidewalks | <input type="checkbox"/> Yes | <input type="checkbox"/> No | |
| Well Maintained Neighborhood | <input type="checkbox"/> Yes | <input type="checkbox"/> No | |

Easy Proximity to:

- | | | | |
|-------------------------------|----------------------------------|-----------------------------------|---------------------------------|
| <input type="checkbox"/> Work | <input type="checkbox"/> Schools | <input type="checkbox"/> Shopping | <input type="checkbox"/> Public |
|-------------------------------|----------------------------------|-----------------------------------|---------------------------------|

Transportation

- | | | | |
|-----------------------------------|--|--|---------------------------------------|
| <input type="checkbox"/> Highways | <input type="checkbox"/> Houses of Worship | <input type="checkbox"/> Train Station | <input type="checkbox"/> Airport Area |
| <input type="checkbox"/> Industry | <input type="checkbox"/> Doctors/Dentists | | |

Glossary

Adjustable-Rate Mortgage (ARM) – A loan with an interest rate that changes with market conditions on pre-determined dates.

Annual Percentage Rate (APR) – A term used to represent the percentage relationship of the total finance charge to the amount of the loan, over the term of the loan. Do not confuse the APR with your quoted interest rate, which is used to determine your monthly principal and interest payment. The APR reflects the cost of your mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes (in addition to the interest rate) loan discount points, fees and mortgage insurance. See Note.

Appraisal – A report written by a qualified expert that states an opinion on the value of a property based on its characteristics and the selling prices of similar properties or comparable properties in the area.

Automated Underwriting – A computerized method of reviewing home mortgage applications for loan approval.

Bridge Loan – A loan which enables homebuyers to get financing to make a down payment and pay closing costs on a new home before selling the home they currently own.

Closing – The final step after a lender approves an application. The homebuyer and lender sign the security-agreement note for the mortgage loan, which states all the terms and conditions of the loan, and the funds for the loan are turned over to the homebuyer's closing agent.

Closing Agent – Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

Closing Costs – The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the lender's fees, title fees and appraisal costs.

Commitment Letter – A binding, written pledge, by the lender to a mortgage applicant, to make a loan, usually under certain stated conditions.

Conventional Loan – A mortgage that is not insured or guaranteed by a government agency such as FHA, VA or Farmers Home Administration.

Credit Report – A report issued by an independent agency which contains certain information concerning a mortgage applicant's credit history and current credit standing.

Debt-to-Income Ratio – A formula lenders use to determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

Down Payment – A portion of the sales price paid to the seller by the homebuyer to close the sales transaction. Also, the difference between the sales price and the home mortgage amount.

Equity – Your ownership interest, or that portion of the value of the property that exceeds the current amount of your home loan. For example, if the property is worth \$100,000 and the loan is for \$75,000, then you have \$25,000, or 25%, equity in your home.

Escrow Account – A holding account for the amount a mortgage borrower pays each month and which the lender uses to pay for the borrower's taxes, other periodic debts against the property, homeowner's insurance and, if applicable, mortgage insurance.

Fixed-Rate Mortgage – A loan with an interest rate that remains the same for the entire repayment term.

Glossary

(continued)

FICO Score – A numerical rating developed and maintained by Fair Issac and Company that indicates a borrower’s creditworthiness based on a number of criteria.

Float the Rate – This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the interest rate to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

Front-end Ratio – Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

Funding Fee – The amount charged on VA mortgages to cover administrative costs.

Good Faith Estimate – A document that tells mortgage borrowers the approximate costs they will pay at or before closing, based on common practice in the locality.

Government Loan – A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration or a state bond program.

Home Mortgage Consultant – The home mortgage representative a homebuyer initially consults about a mortgage loan. Sometimes called a loan officer, account executive or sales representative.

Homeowner’s Insurance (also called Hazard Insurance) – A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

HUD-1 Settlement Statement – A standard form used to disclose costs at closing.

Index – Interest rate adjustments on adjustable-rate mortgage (ARM) loans are based on a specific “index” or treasury issue (bond) which is selected because it is a reliable, familiar financial indicator. Your monthly interest rate payment will be adjusted up or down in relation to this market indicator, plus the margin as specified in your note. See Margin and Note.

Interest Rate – A percentage of the mortgage amount that is paid to the lender for the use of the money, usually expressed as an annual percentage.

Interim Interest – The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

Loan Conditions – These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement and any requirements the borrower must meet prior to closing.

Loan Payment Reserves – A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

Loan Settlement – The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes and the disbursement of funds necessary to the mortgage loan transaction.

Loan-to-Value (LTV) – The ratio of the amount borrowed to the appraised value or sales price of real property expressed as a percentage.

Margin – The number of percentage points added to the index to calculate the interest rate for an adjustable-rate mortgage (ARM) at each adjustment period.

Mortgagee – The lender.

Glossary

(continued)

Mortgage Insurance (MI) – An insurance policy which will repay a portion of the loan if the borrower does not make payments as agreed upon in the note. Mortgage insurance may be required in cases where the borrower makes less than a 20% down payment on the home loan.

Mortgagor – The borrower.

Mortgage Specialist – The individual responsible for collecting the completed application and all supporting documents before the entire loan packet is submitted to underwriting. Also known as a processor.

Nonconforming Loan – A mortgage program that offers approval guidelines which are not industry standards. It may, for example, have different loan limits than conforming loans, but may offer financing in conforming and jumbo amounts.

Note – The agreement which states the home mortgage amount to be borrowed and the terms and conditions of the loan. It also includes a complete description of how the loan should be repaid and the time frame for the repayment.

Origination Fee – The amount collected by the lender for making a loan. It is generally equal to a percentage of the principal amount borrowed.

Points – One point equals 1% of the loan amount. Total points on a loan include origination points, used to offset the cost of making a loan, and discount points, which can be paid to reduce the loan's interest rate.

Pre-approval – A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.

Prepays – That portion of your loan closing costs which must be collected at closing to cover taxes, interest and insurance.

Principal – The amount of a loan, excluding interest; or the remaining balance of a loan, excluding interest.

Private Mortgage Insurance (PMI) – A mortgage insurance policy on a conventional mortgage loan issued by a private insurance company.

Processing – The completion of a mortgage loan application and supporting documents.

Rate Cap – The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

Rate Lock – The borrower and the lender agree to protect the interest rate, points and term of the loan while it is processed.

Sub-prime Loan – A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

Truth-in-Lending Statement – Required by federal regulations, this statement tells purchasers the costs of financing their loan expressed as the annual percentage rate (APR). Do not confuse the APR with your interest rate, which is used to determine your monthly principal and interest payment.

Underwriting – The process of a lender reviewing the application, documentation and property prior to rendering a loan decision.

The following highlights monthly payment amount examples for a \$100,000 mortgage, assuming a 1% origination fee which is included in the APR. Certain closing costs may be charged that are not included in this calculation. Actual rates may vary depending on current market conditions, your credit data, the mortgage program you choose and the type of property being financed. A down payment of less than 20% may require mortgage insurance, which can increase the APR.

- 30-year fixed rate mortgage: Fixed simple interest rate 7.875%, APR 7.990%, monthly payment \$725.07 for 360 months.
- 20-year fixed rate mortgage: Fixed simple interest rate 7.875%, APR 8.009%, monthly payment \$828.68 for 240 months.
- 15-year fixed rate mortgage: Fixed simple interest rate 7.50%, APR 7.664%, monthly payment \$927.01 for 180 months.
- 7-year balloon mortgage: Simple interest rate 7.625%, APR 7.740%, monthly payment \$707.80 for 83 months; one payment of \$92,120.64 due at the end of 7 years.
- 1-year ARM: Initial simple interest rate 7.50%, APR 8.5% (subject to increase), monthly payment \$699.22 for 12 months, annual adjustments thereafter.
- 3/1 ARM: Initial simple interest rate 8.125 %, APR 8.5% (subject to increase), monthly payment \$742.50 for 36 months, annual adjustments thereafter.
- 5/1 ARM: Initial simple interest rate 7.875%, APR 8.340% (subject to increase), monthly payment \$725.07 for 60 months, annual adjustments thereafter.
- 7/1 ARM: Initial simple interest rate 8.00%, APR 8.330% (subject to increase), monthly payment \$733.77 for 84 months, annual adjustments thereafter.
- 10/1 ARM: Initial simple interest rate 8.25%, APR 8.403% (subject to increase), monthly payment \$751.27 for 120 months, annual adjustments thereafter.

Contact your local Home Mortgage Consultant.