Your First-Time Homebuyer's Guide

Take a Step Closer to Homeownership

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Heading Home

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 one of the smartest and, over the long term, most secure investments you can make. It can also be one of the most doable, whether you have a lot of money in the bank or not.

Our home mortgage consultants are trained to work with you on making an investment in your home. We can help you put your home at the heart of your financial well-being. It's not just about money. Few things in life compare with the pride and satisfaction you get from owning your own home. Perhaps you come from a long line of homeowners. Or maybe you're the first in your family to ever be one. Either way, a home can be the foundation for a lifetime of memories. It may even become a family treasure to be passed down over the years — one that preserves family history and provides your heirs with a welcome sense of financial security. That's why we believe 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. We are 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. We specialize in tailoring our home financing packages to your short- and long-term goals, and ensuring that your financing fits with your unique financial picture. We'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.

Why Buy Instead of Rent?

Decades after the phrase "the American dream" was first coined, homeownership 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 may be able to borrow against if you choose. In contrast to renters, most homeowners receive significant tax breaks, because interest paid on a home mortgage is almost always tax deductible. You will want to consult your tax advisor regarding deductibility of interest. Finally, there's the personal satisfaction of having a home you can call your own to share and enjoy with friends and family.

Owning Can Cost Less Than Renting

Renting certainly has some advantages over owning. If you need to move frequently, if you're not at a stage of your life where you want to commit to the responsibilities or costs of maintaining a home, or if your future income is extremely uncertain, renting may be the best option. Just don't assume that renting is less expensive than owning. A monthly mortgage payment is often lower than the monthly rent on a much smaller property. Owning your own home is like having a savings account that you can live in. Every month, the payment you make on your mortgage adds to the equity you have in your home and makes your home asset a more valuable part of your portfolio. Money paid for rent simply evaporates each month. Plus, research has shown that real estate has proven to deliver a highly reliable increase in value compared to other types of investing. If you're renting, those reliable returns are going into your landlord's pocket, not yours. When you add in the federal tax deductions[1] for mortgage interest and real estate taxes, homeownership becomes an even more attractive idea.

1. Consult your tax advisor for details.

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 like us 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.

The Real Costs Of Homeownership

Homeownership has some wonderful advantages. But there are some additional costs involved that you may not incur as a renter. Make sure you consider these in your monthly budget before you decide to become a homeowner.

- **Homeowners Insurance:** Most lenders require the purchase of a homeowners insurance policy to protect your home against loss due to legal liability, fire, flood, or natural causes.
- **Maintenance:** It takes time and money to keep a property in top condition. You'll find that some sellers have kept their homes in great shape, and some in not-so-great shape. This is particularly true with older homes. One way homebuyers protect themselves is with a home warranty. They cost a few hundred dollars a year, depending on the size of your mortgage and where you live, but they cover most of the major appliances and protect you from big expenses. They can be a good value in any homebuying situation, but especially if you have a fondness for older homes.
- **Taxes:** Most communities finance a lot of their schooling and services through property taxes. The tax rate varies from town to town, so speak with your real estate agent to understand what the taxes are on each home you look at. The good news is that property tax payments should be fully deductible at income tax time.[2]
- **Homeowners Association Dues:** Condominiums and planned developments often have homeowners associations. The fees connected to these groups can range from a few dollars to several hundred dollars a month for upscale condos or neighborhoods with lots of amenities. As an owner, getting involved with the association can give you a voice in deciding how much those fees should be.

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. 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, like us, 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.

2. Consult your tax advisor for details.

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 preapproved for a mortgage loan, you do not need to have a property in mind. Before you being working with a real estate agent or builder, ask your home mortgage consultant about getting preapproved. It is a smart move for serious homebuyers because it shows sellers that you come to the negotiating table ready to complete the transaction.

How Much Money Can I Borrow?

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 borrow. 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. Speak with a home mortgage consultant who can help you get an estimated mortgage amount.

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.

Your home mortgage consultant can help you get a better idea of the maximum mortgage amount that you can qualify for. 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.

Financing Options Help You Achieve Your Dream

Owning your own home...it's one of the greatest achievements in life. But while homeownership is a dream many Americans share, a lot of us find saving for the down payment to be a major hurdle. Others have money available through things like 401(k) accounts and mutual funds, but don't feel right dipping into those investments. If you fall into one of these two groups, we have good news for you. Today, there are many options allowing you to purchase a home with little or no money down.

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 homeownership 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). Some homebuyers may even 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.

Creative Ways To Save

While low-to-no money down payment options may make homebuying more accessible, it's still a good idea to have some savings you can bring to the table. Having some funds on hand is also helpful in covering closing costs, any work your property may need, or unforeseen expenses that may come along. Here are several suggestions to help build the size of your funds reserves.

- **Set Up A Forced Savings Plan:** Set up a separate banking account and deposit a set amount into it every month. This works best if you do it through an automatic deduction. If you don't see the money, you're less likely to spend it. Contact a banker to discuss setting up a direct deposit account.
- **Skip Or Downsize Luxuries For A Year:** Start small and stick with it. Things you might not necessarily think of as luxuries can really add up in terms of dollars saved. For instance, if you usually buy lunch every day try "brown bagging" a few days a week. If your family has gotten used to eating out at least once a week, try cutting back to just a couple of times a month. On the "big ticket" side, you might consider a less expensive car than you might otherwise buy or a lower-cost vacation than you might normally take.
- **Pay Off Credit Cards:** Big credit card balances don't do you any favors on credit reports or when qualifying for a loan. They can make you appear overextended. They can also put a huge burden on your savings efforts. Always start by paying off the cards with the highest interest rates, even before the ones with lower balances. And you don't have to completely get rid of your credit cards. You just need to be careful about using them. Credit cards used smartly are actually signs of a financially responsible and creditworthy borrower.
- **Certificates Of Deposit (CD):** Certificates of deposit are a convenient, low-risk method of saving. But when rates are low, committing to a few long-range CDs isn't a good idea. Get several shorter-term CDs of varying ranges, instead. That way, you can adjust or "ladder" your CD choices to take quick advantage of movements in interest rates.
- **Sell Unwanted Items:** Chances are good that an in-depth search of your current home will turn up quite a few items you rarely use and/or simply don't even want to keep. Sell all that stuff and put the proceeds straight into your down payment fund.
- **Earn Some Extra Income:** Look for a part-time job that you can do without interfering with regular employment. Try an evening job in retail, party-oriented sales, or a seasonal job. Some of these part-time positions may even offer dependable employees insurance options or discounts that make the job more attractive. The key here is discipline, so that your extra income goes directly into your down payment fund and not into taking advantage of your employee discount at every opportunity.

Finding Funds In Surprising Places

The most common sources for a down payment are personal savings accounts and traditional investments, but there are several other places that can supply part or all of your down payment.

- **IRA Account:** The federal government allows first-time homebuyers to use $10,000 in IRA funds for a down payment. For married couples who are first time buyers, this could provide up to $20,000 in down payment funds.
- **401(k):** If you have money in a company retirement fund, like a 401(k), you can usually borrow against your balance for a down payment. Be sure to ask about the rules regarding paying back the money and anything you may need to do to avoid tax penalties.[3]
- **Gifts:** Depending on the loan guidelines, you may be able to use monetary gifts from family or friends as part of your down payment. However, you will most likely be required to provide written proof that the funds were truly a "gift" and not a personal loan. Also, there are caps on how much gift money you can receive per year without increasing your tax obligations. Check with a financial advisor, tax accountant, and a home mortgage consultant to learn more about how these options can impact your overall home financing plans and future goals.
    - Non-Profit Down Payment Assistance Programs: There are also DAPs that can provide you with funds for your down payment and closing costs. Many don't even require repayment, if you meet the organization's guidelines. Groups like Habitat for Humanity and Homeownership Alliance of Nonprofit Downpayment Providers (HAND) also can be a source of help with homeownership resources. Speak with your home mortgage consultant, or visit http://www.homedownpayment.org for more information on DAPs.

3. Consult your tax advisor for details.

Ways To Make A Home More Attainable

If you've gone through your budget process and feel that you can't purchase what you want,there are some other things you can do to make getting a home more attainable.

- **Purchase A Fixer-Upper:** Any time a home has obvious problems, the selling price becomes much more negotiable. If those problems are superficial things, like ugly wallpaper, worn carpeting, or hideous color schemes, you can probably get the property at an attractive price, then fix it up to suit your own tastes fairly easily. If the problems are the kind that require light construction work, like replacing drywall, the fixes become a little more challenging. If you have absolutely no free time or if you're simply not handy when it comes to home repairs, the fixer-upper route can be more costly than it's worth.

- **Look Into Multifamily Homes:** Another way to make a home more attainable is by getting other people to help you pay for it. By purchasing a duplex or other multifamily home, your tenants will pay for a significant part of your house payments and could even generate a profit for you. But before you go this route, contact us for a free copy of our guide on buying an investment property. It'll give you a good overview of the responsibilities involved with being a landlord.

- **Consider Condos:** Condominiums are an especially attractive option if you have a very active schedule and don't particularly like doing home maintenance. Initial purchase prices are generally less than single-family homes, but be sure to factor the monthly association fee into your budget. It could be significant, depending on the level of maintenance and amenities your association provides.

- **Lease To Own:** This approach allows you to get into the home you want right away without putting any money down until later. By agreeing to a monthly lease rate that puts a portion of the payment toward the purchase, you can have a good deal of equity in the home by the time you close on it. You may even avoid making a down payment entirely. Meanwhile, the sellers or landlords have a guaranteed cash flow, and a guaranteed sale without having to pay a real estate agent's fee. There are some risks with this approach, as well. For instance, you need to structure your agreement so your landlord can't simply change gears and not sell you the house after you've invested months of payments in the deal. Consult your legal representative and your home mortgage consultant when you're writing the lease and purchase agreements. You want to be sure that the agreement you put together will work with your future financing. Mortgage underwriting guidelines say that only a portion of the rental payment over and above the customary amount can be applied toward the down payment.

- **Buy A Foreclosed Property:** While it's true that you can find occasional bargains among foreclosed properties, there are serious pitfalls you need to avoid. Foreclosed properties are often sold "as is" (meaning you can't require the seller to make any fixes), and the purchase time line may not give you enough room to do a careful inspection. If you decide to go this route, just make sure you get an opportunity to check out the property thoroughly. Ask your real estate agent to help you identify foreclosure listings in your area. You can also search the Web sites for Fannie Mae, Freddie Mac, HUD, and the Department of Veterans Affairs.

What About Closing Costs?

The cost of buying a home is more than just the purchase price. Each homebuying transaction requires the services of a large number of professionals from a variety of fields. It's common for these costs to add up to between 3% and 5% of your total mortgage. When you choose to work with a lender, your home mortgage consultant will give you a Good Faith Estimate of your closing costs shortly after you apply. While it is only an estimate, it can help you budget for your closing. We can also work with you to include your closing costs in your loan amount to reduce the amount of out-of-pocket money involved.

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 can be an option, but is a requirement with less than a 20% down payment.

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 guide, 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.

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.

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, we provide adjustable-rate FHA loans and fixed-rate jumbo mortgages. As your advisor through the mortgage process, your home mortgage consultant can help you determine the right loan to fit your needs and design a custom financing solution for you.

We offer a full range of standard home loan programs, with a variety of rate, term and cost options to answer individual homebuyer needs. We also offer programs for those with less-than perfect credit histories and difficult-to-document income. In addition, we offer exclusive programs that provide special options, services and conveniences. These programs include specialized options for homes that require renovation and new construction financing. Your home mortgage consultant can recommend the financing solution that's exactly right for you.

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. We 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 manage to make larger monthly payments after the rate adjusts, or are looking to buy a home when interest rates are relatively high.

FHA Loan. The Federal Housing Administration (FHA) insures a wide variety of mortgages that we provide. 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

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. Our 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

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 sure to 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. We typically quote rates with 1 total point (zero discount points and one origination point).

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:

Mortgage Program	Interest Rate	Total Points	APR	Monthly Payment
30-Year Fixed-Rate Mortgage	7.000%	1	7.170%	$964.69
30-Year Fixed-Rate Mortgage	6.875%	3	7.249%	$952.55

This chart is for illustrative purposes only. It assumes $1,000 in additional finance costs, a $145,000 loan, and a 20% down payment. Monthly principal and interest payments would be $964.69 and $952.55 respectively. 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. We also offer programs that allow you to lock pricing before finding a property.

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, we provide the ability to lock your pricing for up to two years[4] to accommodate lengthy construction time frames. You can 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.

When You're Ready To Look For A House

Choosing The Right Real Estate Agent

Real estate agents make it their business to know everything about communities and the homes within them. A good real estate agent can:

- Establish what you want in a home. Communicating your desires is essential to helping your real estate agent find you the right home.
- Search the Multiple Listing Service (MLS) and other resources for homes that match your needs.
- Show you appropriate homes.
- Provide valuable information on communities, comparable values of neighboring homes, tax rates, and building code regulations.
- Help you formulate an offer on the home you want to buy.
- Act as an intermediary between you and the seller, smoothing the negotiating process.

Choose your agent carefully. Note the names of agents on "For Sale" signs as you drive through neighborhoods of interest. Ask anyone you can for referrals — including your home mortgage consultant. That consultant works with real estate agents every day, so he or she will be able to provide you with a list of qualified candidates. Check the Internet sites of local realty companies, too. When you've got a good list of names, interview at least two or three of the agents. In addition to having experience in the area where you hope to buy your home, the agent you choose should be trustworthy and easy to talk to. Tell them what you're interested in and ask if they can provide some additional information about area schools, taxes, or some other special interest. Then see how quickly they respond and how accurately they follow your request. Once you've selected an agent, stick with that agent even when you're looking at homes listed by other agencies. A good agent will make it his or her business to be familiar with all the listings in your chosen area. Contacting a different real estate agent simply because you're attracted to a listing of theirs is counterproductive when you've built a level of familiarity and trust with your selected agent.

4. A non-refundable closing cost commitment deposit will be required for a lock ranging from 3 months to 12 months on qualified products. An extended lock/commitment fee may be required for a lock ranging from 4 months to 24 months on qualified products. Due to daily pricing variations between products, you are encouraged to work with your home mortgage consultant to ensure that pricing available on the Builder Best® lock feature that you choose is the most advantageously priced Builder Best lock feature for you.

Make Your Wish List

Once you know a comfortable price range, put together a wish list of the things that are most important to have in your home. We've included a sample house-tour checklist toward the back of this guide to help you get started. When you've completed your list, rank the items in order of importance. Be sure to cover your basic needs then include any strong preferences you have about things like the style of home you want and the type of exterior finish you prefer. If you absolutely don't like the flow of ranch style houses or the size of rooms in Tudors, make a note of it. Your edited wish list will make it much easier for a real estate agent to find the perfect house for you.

Choose A Neighborhood

Location is an extremely important factor in determining your long-term happiness with your new home. The right real estate agent should be able to give you a lot of information in this area.

Here are a few things to think about, so you'll be able to discuss them with your agent.

• Do the schools meet my needs?

• Is the commute time acceptable?

• Are there good public recreation areas nearby?

• Will I like the nearby grocery stores and services? Am I willing to drive out of my way regularly if I don't?

• Is the neighborhood stable? Is there sufficient improvement happening around it? If homes are being well maintained and renovated it's a good sign the area is stable.

• What trends are occurring in neighboring areas? Is there revitalization happening or are they experiencing a downturn? Neighborhoods transition, that's only natural. What you need to do is select an area where positive transition is the most likely possibility.

Start Looking Online: There are several excellent Web sites offering listings of homes for sale. Searching your price range is a good way to narrow down the field of neighborhoods you'll have to choose from, get a quick sense of areas you'd like to explore further, and figure out a few areas you'd prefer to skip entirely. Write down the MLS numbers for any properties that get your attention so you can give them to your real estate agent. Remember that the real estate agent you select, with few exceptions, can show you the homes listed by any agency.

Check School Reports: If you'll need to send kids to school now or in the future, the quality of area schools is very important. Ask your real estate agent to provide you with the school reports for any neighborhoods you're interested in. Another good source is the economic development Web site of the city you're considering, the local convention and visitors bureau Web site, and the Web site of the largest daily newspaper in the area.

Choosing The Right Lender

Whether you're all set to buy or just trying to figure out what you can buy, choosing a lender who listens carefully, has the right products for your needs, responds promptly, and treats you with respect is critical. Our home mortgage consultants are trained to ask questions that will give them a clear picture of both your current needs and future goals. They can help you customize a home financing program that will not only help you buy a home now, but one that can also start you on the road to overall financial success.

We help homebuyers every day in making the right choices for their home financing needs. Our home financing professionals work with one of the broadest selections of products and services in the industry. In addition to all the conventional financing options, we offer special programs that overcome obstacles like credit issues, hard-to-document income, and lack of savings. Whatever your financial profile, we can help you capitalize on purchase opportunities through faster approvals, higher loan-to-value (LTV) ratios, and streamlined processing.

The Process

Get An Edge - Get Preapproved

Before you begin searching for a home, we highly recommend you ask your home mortgage consultant about preapproval. By completing your mortgage application prior to choosing a home, you can get a preapproval letter that lets you know how much home you can qualify for. Getting this preapproval 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 preapproval 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. We will work with you to offer, if possible, a loan program or loan terms that accommodate your needs and circumstances. We want to provide mortgage financing options that meet your individual needs.

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.

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. We will evaluate your financing requirements and do everything possible to help approve your application. In the case that your application is not approved, we'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. There are two types of title insurance: one protects the lender, the other protects the borrower from claims against your ownership of the property. Such claims might be made by undisclosed spouses, heirs of previous owners, creditors holding liens against previous owners, or other parties. Your lender will most likely require you to purchase a title policy, which will cover their interest in the property. It's up to you if you would like to purchase a policy to protect your interest in the home. Your home mortgage consultant will be able to recommend a title insurance company who can provide you with additional information about the policies available in your area.

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.

Glossary

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

Alternative Financing – A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

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.

Appreciation/Depreciation – "Appreciation" refers to the increase in a property's value, except for inflation. When a property decreases in value it is called "depreciation."

Assessed Value – The value that a taxing authority places on real or personal property for the purpose of taxation.

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.

Capital Gains – Used for tax purposes, this is the capital gain you make when you sell your home. For example if you purchase a property for $100,000 and sell it some years later for $150,000 your capital gain is $50,000.

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.

Commission – Compensation for negotiating a real estate or loan transaction, often expressed as a percentage of the selling price or loan amount.

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

Comparable Market Analysis (CMA) – A written analysis of houses having similar characteristics currently being offered for sale as well as comparable houses sold in the past six months. This enables you to determine if you are paying market value for a home and to identify whether market prices are rising or falling.

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.

Down Payment Assistance Programs (DAPs) – Gift funds offered to qualified homebuyers to be used toward down payments and closing costs. These programs are often administered by local non-profit foundations.

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.

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.

Foreclosure – A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

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. The loans are generally made by private lenders.

Home Mortgage Consultant – The 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.

House Inspection – A thorough evaluation and written report of a home's condition both inside and out. The inspection is valuable in locating any problems in a property and helps you determine the extent of renovation needed. You can use the report to have the seller make repairs or reduce the purchase price. Always use your own inspector, and do not rely solely on the seller's inspection reports.

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 conveyance of an interest in real property given as security for the payment of a loan.

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

Multiple Listing Service – A computer-based shared listing service for real estate agents that provides descriptions of most of the houses for sale in an area.

Non-conforming 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.

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

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.

Preapproval – 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 purchase.

Prepaids – 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.

Real Estate Agent – A salesperson, usually licensed by the state and supervised by a broker. Agents work solely on commissions earned by selling properties.

Realtor® – Person licensed to sell or lease real property acting as an agent for others and who is a member of a local real estate board affiliated with the National Association of Realtors.®

Return On Investment – The percentage of capital gain that you make on an investment. For example, say you invest $1,000 into a property, and a year later it is worth $1,500. Your return on investment equals the profit ($500) divided by the initial investment ($1,000) or 50%.

Title Insurance – An insurance policy that protects a lender and/or homebuyer (only if homebuyer purchases a separate policy, called owner's coverage) against any loss resulting from a title error or dispute.

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.

For More Information On William Pitt Mortgage, LLC

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