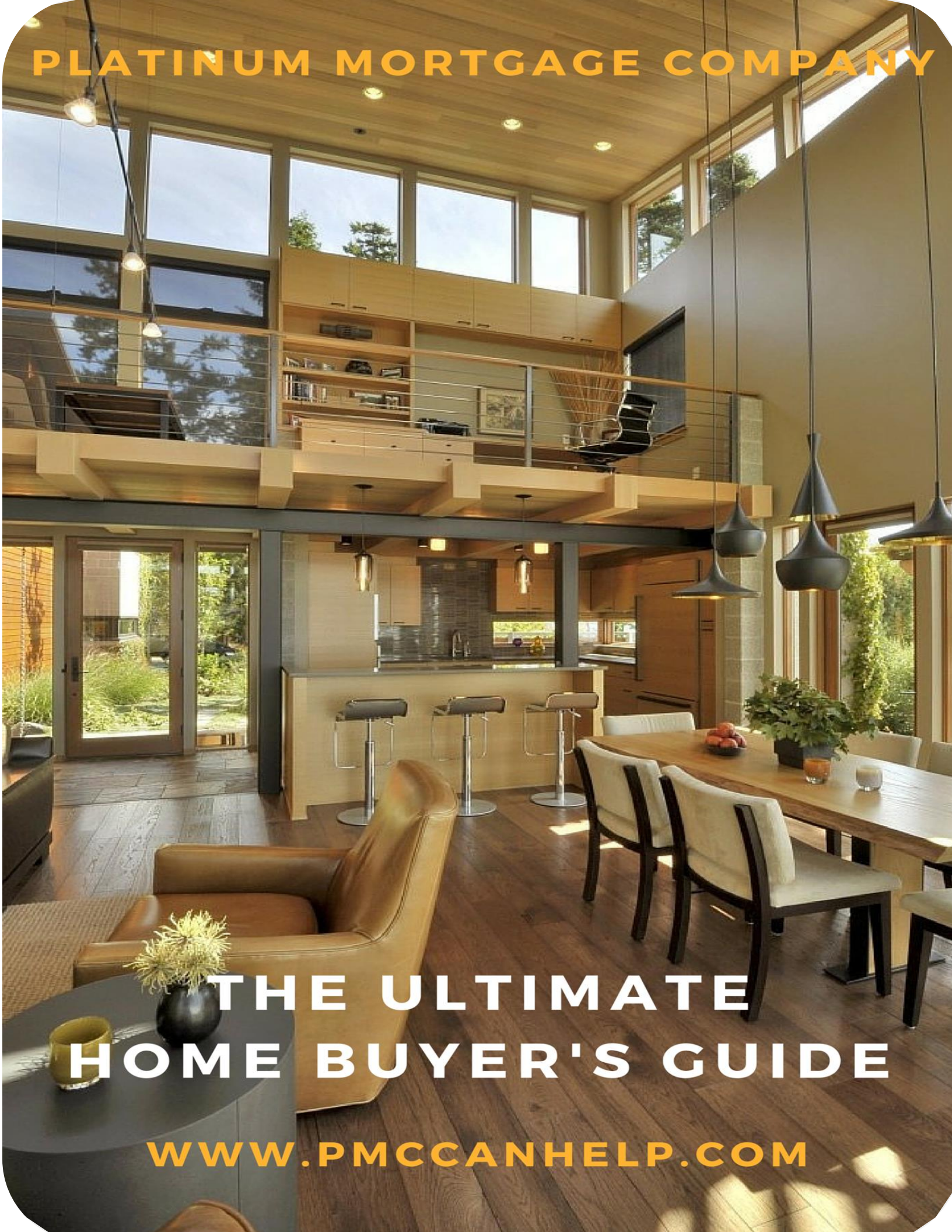
PLATINUM MORTGAGE COMPANY



# THE ULTIMATE HOME BUYER'S GUIDE

WWW.PMCCANHELP.COM

This publication is designed to provide general information regarding the subject matter covered. However, laws and practices often vary from state to state and are subject to change. Because each actual situation is different, specific advice should be tailored to particular circumstances. For this reason, the reader is advised to consult with his or her own advisor regarding their specific situation.

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Published by Platinum Mortgage Company
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Cover design by Platinum Mortgage Company
To order additional copies, visit www.pmccanhelp.com
ISBN: 978-0-9904485-0-1

# Table of Contents


1. Introduction
2. Benefits of Homeownership
3. Renting - vs - Buying
4. Myths About Home Buying
5. What It takes To Be A Homeowner
6. Credit & Mortgage Loans
7. Credit Management
8. Federal Trade Opt-Out Tip
9. Things to Consider Before You Buy
10. Get Pre-Approved
11. Mortgage 101
12. PMC Loan Programs
13. The Loan Process
14. Loan Document Checklist
15. Acceptable Sources of Income
16. Seller Credit & Closing Costs
17. Allowable & Non Allowable Closing Costs
18. Your Down Payment
19. The House Hunt
20. Importance of a Home Inspection
21. Property Insurance
22. Getting Approved
23. Moving Checklist
24. Benefits of Bi-Weekly Payments
25. Why Refinance?
26. Appendix
27. Acknowledgment

# Introduction

For many years, Platinum Mortgage Company has been in business to help people obtain the American Dream of owning their own home. In addition, we pride ourselves in our ability to help our clients make sound financial decisions regarding their mortgage and investment needs. Buying a home is one of the largest investments we make in our lifetime, which will one day become a future asset. Most people don't know where to begin, as the process can seem daunting for people unfamiliar with it. We partner with our clients to help them develop a detailed, personalized plan so they know what preparatory steps are necessary to complete the transaction successfully. It is our responsibility to educate the clients about the documents they will be signing upfront and at closing, as well as to go over the terms of the loans to ensure they have no unanswered questions. The journey to homeownership takes time and we are there with our clients every step of the way. Our favorite part of each purchase transaction is the day our client receives the keys to his or her new home.

Everyone deserves to be a homeowner and it is essential for our nation's economy. Buying a home is one of the largest purchases that we make in our lifetime and it is also one of the largest commodities. New jobs are created when housing and construction are up and the gross revenue for each new home built is estimated at about $60,000. Noted in the Urban Policy Brief, Number 2 – August 1995 the four fundamental National Homeownership Strategy benefits are:

- "Through homeownership, a family invests in an asset that can grow in value and generate financial security."
- "Homeownership enables people to have greater control and exercise more responsibility over their living environment."
- "Homeownership helps stabilize neighborhoods and strengthen communities."
- "Homeownership helps generate jobs and stimulate economic growth."

One main downfall is that the average uneducated homeowner will refinance their home on average three times and they will never pay off their mortgage. Part of our service to our clients is to educate them on the tax benefits of homeownership, which includes deductions for mortgage interest, real

estate taxes, and private mortgage insurance as well as an exclusion on capital gains from the sale of a home. With the tax benefits, buying a home is another way of giving yourself a raise that your employer cannot give you. The potential refund each year can supplement your retirement savings while also building equity, which you wouldn't receive as a renter. Who could live off of just $1,200 a month in social security income with no life savings? The goal for everyone is to be financially fit and debt free into retirement. Our goal is to help you achieve that and the best method is to arm you with the knowledge and resources that you will need in order to help you make an informed financial decision with your future and the future of your family.

Many applicants have negative credit history due to the country's recent financial hardship and most have no idea how to rebuild their credit. It is imperative for us to help our clients with sub 640 FICOs, to raise their credit score prior to their loan approval. Every 20 points can increase their score can save them an average of 0.25% on their interest rate or in fees, which could be thousands of dollars in backend interest. This will also reduce their mortgage payment and make it more affordable. We would be doing a disservice if we did not offer this assistance to every single client.

Often, the main thing that is keeping someone from becoming a homeowner is FEAR. We will overcome this simple hurdle together. We convert weary first time home buyers into well-informed, confident homeowners. We can help take fear out of the equation, and get you on your way to becoming a homeowner with all the tools and resources that you will need.

# Benefits of Homeownership

## *Forced Savings Benefits*

One very important benefit of buying a home, but commonly overlooked is the forced savings benefit. Paying your mortgage payment every month and reducing the amount of your principal is a long term forced savings plan. As you make mortgage payments over time, you will also accumulate "equity", which is the term used to refer to your net financial interest in the property. It is the difference between the amount still owed on the mortgage loan and the fair market value of the property. Each month you are building up more valuable equity in your home along with the appreciation in the value.

## *Appreciation of Your Investment*

Property will increase in value over time, which is referred to as "appreciation". This will depend on a few variables, including the property's age and location. This may not always be guaranteed. Economy or deterioration in the property or location can also be a negative effect on the value of the home. Any increased worth is equity you may be able to borrow against or take as profit upon the sale of the property.

## *Tax Benefits*

The tax deductions you are eligible to take for mortgage interest and property taxes will greatly increase the financial benefits of homeownership. Here is how it works.

**Assume:**

$9,877 = Mortgage Interest Paid

(A loan of $150,000 for 30 years, at 7 percent, using year-five interest)

$2,700 = Property taxes (at 1.5 percent on $180,000 assessed value)

$12,577 = **Total Deduction**

Then, multiply your total deduction by your tax rate.

For example, at a 28 percent tax rate: 12,577 x 0.28

= **$3,521.56**

When you file your income taxes and itemize deductions, you will be able to deduct mortgage interest, property taxes and even private mortgage insurance. You can deduct the interest on up to one million dollars of home mortgage debt, whether it is used to purchase a first, second home or rental property.

### *Fixed Housing Expense*

Owning a home provides a sense of financial security. Unlike rent, which can increase annually, most mortgage loans have fixed or capped monthly payments. Knowing what the payment will be allows you to have a peace of mind to budget your expenses each month and year over year. Keep in mind that there may be a slight increase in the hazard insurance or property taxes.

### *Customizing Your Environment*

Everyone has a desire to have a place they can call home. Besides the sense of security, homeownership will allow you the opportunity to customize your home to your individual tastes and needs. It is assumed that there will be other responsibilities such as utility costs, the cost of repairs and maintenance on the property. There will be no landlord to maintain the property or take care of any problems, but you will have control over those decisions.

### *Deducting Origination and Discount Points or Fees*

After purchasing or refinancing you can also write off any loan origination or discount fees for buying the interest rate down whether they are paid by you or the seller. Always request for seller credit to be used towards closing costs and prepaid fees when making an offer. Worst thing they can say is no. The average seller credit given is 3%.

### *Deducting Home Equity Lines of Credit Mortgage Interest*

Another savvy tax deduction is to deduct the interest on up to $100,000 of home equity debt, even if you don't use the money for home improvements. This allows you to shift your credit card debts

to your home equity loan, pay a lower interest rate than the horrendously exorbitant credit card interest rates, and get a deduction on the interest as well.

## *Capital Gains*

Thanks to the Taxpayer Relief Act of 1997 law, if you buy a home to live in as your primary residence for more than two years then you will qualify for the capital gains exclusion. When you sell your home, you can keep profits up to $250,000 if you are single, or $500,000 if you are married, and not owe any capital gains taxes. There's no limit on the number of times you can use the home-sale exemption provided that you owned and occupied it as a principal residence for an aggregate of at least two years in the five-year period ending on the date of sale. There is a two year waiting period if you claimed another sale within the previous two years.

## *The 1031 Exchange*

The 1031 exchange allows an investor to trade real estate held for investment for other investment real estate and incur no immediate tax liabilities. Under Section 1031, if you exchange business or investment property solely for business or investment property of a like kind, no gain or loss is recognized until the newly acquired property is sold. Keep in mind that Section 1031 does not apply to exchanges of inventory, stocks, bonds, notes, evidence of indebtedness and certain other assets. There are 1031 exchange servicing companies that can help you handle this transaction.

## *Fully Tax-Free Exchange*

Certain conditions are required in order to take advantage of tax-free 1031 exchange:

- Both properties must be *"like kind"* **-** same nature or character, even if they differ in grade or quality.
- The exchanged property must be held for productive business or investment use and traded for the same use.
- The new property that you intend to receive in exchange for your existing property must be identified in writing within 45 days of the first transfer.

- The like-kind property must be received by one of these two dates (whichever comes sooner): within the 180 day period following the property transfer, *or* by your tax return due date (including extensions) for the year in which you transferred the property.

## *The Six Types of 1031 Exchanges*

1. **Delayed -** After the relinquished 1031 property has closed, the replacement property must be identified within the first 45 days and purchased within 180 days.
2. **Simultaneous -** When both the relinquished and the replacement properties close escrow on the same day.
3. **Reverse -** Allow the purchase of the 1031 exchange replacement property to close ***prior*** to the closing of the relinquished property. The relinquished property must be identified within 45 days after escrow has closed on the purchase property and the sale must close escrow no later than 180 days.
4. **Hybrid -** Combining both the delayed and reverse 1031 exchanges involving multiple properties.
5. **Build To Suit** - Allows the taxpayer to construct improvements on the replacement property during the course of the exchange.
6. **Personal Property –** A 1031 Exchange involving personal property to be used for investment or the productive use in a trade or business.

## *Partially Tax-Free Exchange*

To be completely tax free, the exchange must be solely an exchange of like-kind property. Finding a property with the same trade value is ideal for the 1031 exchange, but it is difficult to find an equal exchange. In many cases, one party ends up kicking in some extra cash to make the deal fair. This additional property or cash received is known as "boot", and this gain is taxed up to the amount of the boot received. When there are mortgages on both properties, the mortgages are netted. The party that is giving up the larger mortgage and getting the smaller mortgage treats the excess as boot.

## *Rules and Regulations*

Exchanging U.S. real estate for real estate in another country will not qualify for tax-free exchange status. Trades involving property used for personal purposes will not receive the tax-free treatment afforded under Section 1031 such as exchanging a personal residence for a rental property. If either party subsequently disposes of the exchanged property within a two-year period, the exchanged property will become subject to tax.

It is important to understand that for tax reporting purposes, the basis of the old property is carried over to the new property and the taxes due are not forgiven; they are simply postponed until the sale of the new property. In order to record the Section 1031 exchange with the Internal Revenue Service, you will need to file Form 8824 Like Kind Exchange with your tax return for the year of that the "like-kind" exchange was completed. A tax-free exchange is not recommended if the transaction will result in a loss, since losses cannot be deducted in tax-free exchanges. In these cases, you may be better off selling the asset and using the proceeds to buy the new property.

## *The Conclusion*

Many people have taken advantage of the favorable tax treatment from the federal government with the increased number of real estate sales. As a result, however, a tremendous amount of tax revenue has been lost. New regulations that would make some serious changes to the tax advantages currently available on real estate gains are already circulating in Congress. If you have been thinking about selling your home, before Congress decides to make any changes, it might be a good idea to take advantage of Section 1031 before it is too late.

# Renting - vs - Buying

The first step in any decision making process is weighing out the pros and cons. If you have been considering buying a home, let's look at the advantages and disadvantages of these options.

**Pros of Homeownership**

1. Building Equity: Tax Free Gain
2. Tax Benefits
3. Property appreciates in value over time
4. Sense of pride
5. More Stability and Control
6. Family Home
7. Forced Savings
8. Freedom to decorate/upgrade home

**Cons of Renting**

1. Not Building Equity: Paying someone else's mortgage.
2. No Tax Benefits
3. No control over rent increases
4. Often the same costs or more than a mortgage payment
5. Less sense of ownership/pride
6. Less sense of stability

When considering homeownership, it is important not to overlook expenses like the down payment, closing costs, mortgage interest, insurance, maintenance, association fees and property taxes. Renters do not incur any of these costs. It is also important to note that, more often than not, the financial benefits of homeownership outweigh that of renting.

One drawback of owning a home is that you will have less flexibility to move or relocate if you were to relocate for a new job, get married, have children or need more space. It is best to know that you will be living in the home for at least a minimum of three years or more.

Renting may be the best option if you are uncertain of the future of your employment or if you are in the process of clearing up your credit and finances. Another reason someone may continue to rent is if their utilities are included or you are receiving a reduced rent in lieu of work that you may have agreed to do for the property or the owner.

You can get an idea of whether or not homeownership would be more beneficial for you than renting by doing a 'Rent vs. Buy Analysis' using an online calculator.

| Years | Rent Payment | Mortgage Payment | Monthly Difference | After Tax Savings | Yearly Difference | After Tax Savings |
|---|---|---|---|---|---|---|
| 1 | 800 | 1000 | -200 | -50 | -2400 | -600 |
| 2 | 840 | 1000 | -160 | -10 | -1920 | -120 |
| 3 | 882 | 1000 | -118 | +32 | -1416 | +384 |
| 4 | 926 | 1000 | -74 | +76 | -888 | +912 |
| 5 | 972 | 1000 | -28 | +122 | -336 | +1464 |
| 6 | 1021 | 1000 | +21 | +171 | +252 | +2052 |
| 7 | 1072 | 1000 | +72 | +222 | +864 | +2664 |
| 8-30 | | | Savings increase every year | | | |

## *Long Term, Buying Is Cheaper than Renting*

Instead of paying off your landlord's home or building, pay off your own. Over time, as the interest portion of your mortgage payment decreases, the interest that you pay will eventually be lower than the rent you would have been paying. Most importantly, you will have to live someplace so you might as well own your own home.

Not all markets are the same. For high cost markets such as San Francisco the average median price of a home is about $1,100,000 or in Manhattan at a high of $1,800,000. Owning a home would be preferred, but renting may be a lesser expensive option. Having a larger down payment saved will make homeownership more affordable.


| | Buy | Rent |
|---|---|---|
| Purchase Price / Rent | $350,000 | $1,800.00/month |
| Rate | 4.25% | - |
| Term | 30 year | - |
| Loan Amount | $294,556 | 0 |
| Down payment / security deposit | $10,500 | $1,800.00 |
| P&I | $1,661.53 | - |
| Tax insurance | $703.19 | - |
| Total monthly payment | $2,152.28 | $1,800.00 |
| Total payment after 6 years | $154,964.16 | $131,400.00 |
| **Equity after 6 yrs** | **$57,510.05** | **$0** |

# Myths about Home Buying

There are a few myths floating around regarding homeownership. Let's clarify some of them:

## *1) **Myth:** Homeownership is only for the wealthy.*

This is a myth brought about by a lack of knowledge. The truth is that renting can often be more expensive than homeownership in the long run. Rental prices are steady on the rise especially in metropolitan areas. With the recent housing crisis, renting became more popular, meaning the rental supply decreased and the rental prices rose even more. Also, when you rent, you aren't gaining any equity; instead, you're helping your landlord gain equity. The benefits of renting are far fewer.

Yes, it is ideal that you have a good amount of savings before you buy a home, but really you should have a savings whether you're buying or renting. There are lots of programs to help first-time home buyers (or those who haven't owned a home in three or more years). Regardless, you don't always

need to make a large down payment. There are many loan programs and down payment assistance programs that are available with as little as 0.5% down.

Finally, your down payment and/or closing costs can be 'gifted' to you. There are, of course, a few guidelines for this as well.

***Myth:*** *If I have the money, homeownership is a simple process.*

On the contrary, some people mistakenly believe that the process of buying a home is simple, especially if you have the money. In actuality, the process takes time, whether you are financially prepared or not. After the housing crisis, mortgage lenders' guidelines and requirements became much more rigid. Your risk analysis prior to approval is a bit more extensive as is the necessary documentation.

If you are financially prepared, there are specific requirements that lenders will need for proving the assets are yours (in order to prove you are capable of consistently making your loan payments on time over the course of your loan). Also, there are guidelines you must meet for income verification.

Despite all this, the mortgage process can be made a lot simpler and less cryptic if you work with a competent agent. It is best to find an agent with a few years of experience with the same broker and someone who is knowledgeable about the neighborhood you are wanting to buy a home in. This is why it is important to pick the right agent to assist you in taking this important step.

**Myth**: *It is a bad time to buy a house.*

Mortgage rates are still at historical lows, which creates stable payments and long-term savings for today's home buyers. Home values have been going back up but are still low in value after the falling of many foreclosures in recent years. The combination of these factors generally equals greater affordability, and makes now a good time for many to consider homeownership.

2) **Myth**: *Buying a house is just too risky; I'll end up in foreclosure.*

After the recent market downfall and the subsequent foreclosures in the US, home buying is understandably frightening. Certainly if you are experiencing financial hardship such as a losing your job, enduring a divorce, or suffer a medical illness, you may have a challenge paying your mortgage, or rent for that matter. Many people don't plan well enough when purchasing a home and end up building additional debt. While you can't always plan for the unexpected twists and turns of life, good budgeting and responsible credit practices can decrease the likelihood of a foreclosure during hardship.

### 3) ***Myth**: If you are not a U.S. citizen, you can't buy a home in the U.S.*

You can purchase a home in the U.S. if you're a permanent or non-permanent resident alien. You just need to prove that you are a permanent resident alien with a valid USCIS card or a "Green Card" and Social Security number. If you are a temporary resident alien with a valid work permit and Social Security number and have been in the United States continuously for the last two years, with steady employment and good credit history, you may also qualify for a loan.

### 4) ***Myth**: In order to qualify for a mortgage loan you must have a bank account or credit cards.*

It is always best to have a bank account, which can help you establish credit, but you can still get approved for a home loan even if you don't have a bank account or credit cards. The lender may require a 12 month history of non-traditional credit for rent, utilities, medical, insurance and possibly car payments. Lenders require bank statement to source where the funds for the down payment are coming from and also to source any fixed income deposits such as social security, pensions/retirement, child support or alimony.

### 5) ***Myth**: When you apply for a home loan, the lender will share your personal financial information with other companies.*

By law, banks and other financial institutions are restricted in their uses and disclosures of information about you. In some situations, you may choose to restrict the disclosure of your information if you don't want it to be shared by signing an opt-out form.

***Myth**: If you miss a payment or are more than 30 days late on your mortgage payment, you will lose your house.*

Contact the lender immediately and let them know about your financial hardship, including loss of a job, the death of your spouse or a medical emergency. It is possible to keep your home and get back on track if you contact your lender's loss mitigation department and they will let you know about your options such a forbearance agreement. The lender wants you to be able to stay in your home and will do the best to help you.

6) ***Myth**: The lender won't approve your home loan if you've changed jobs several times in the last few years.*

You can change jobs several times and still get a loan to buy a home, but lenders are mostly concerned that you have been in the same line of work for 2 years or longer and show stability. Lenders understand that people change jobs. If there are gaps in between job changes a letter of explanation will be required. If you received unemployment during the gap you will need a letter from unemployment showing the weeks claimed. If the gap was longer than 3 months, an exception will be required. FHA does offer a "Back to Work" program (Mortgagee Letter 2013-26). A paper trail of incident will be required and most lenders will require a housing counseling certificate, which can be obtained from an online course such as Back To Work.

*7) **Myth**: I can't buy a home, because I don't have enough money save up.*

Gifted funds from family, employer and first time home buyers programs can be used towards your down payment. You can also buy a home using upcoming payroll deposits, tax refunds and the sale of personal goods such as cars, jewelry, furniture, etc. The lender will require a bill of sale, funds must be in the form of a money order or cashier's check and a copy of the deposit and bank statement showing the credit of the exact amount. There may be down payment programs available to you. You can search online on Down Payment Resource.

8) ***Myth:*** *I just graduated from college and will have to wait several years to buy a home.*

If you landed a new job I the same line of studies as your degree, you will only need an executed offer letter from your employer, 30 days check stubs and a verification of employment to qualify based on your current salary for a FHA mortgage loan.

9) ***Myth:*** *Banks won't approve me after a foreclosure, bankruptcy or short sale.*

The waiting period to buy a home again is as follows:

*Federal Housing Administration (FHA) Insured Loan*

FHA Extenuating Circumstances: "Serious illness or death of a wage earner. Divorce and the inability to sell a property due to a job transfer or relocation **does not** qualify as an acceptable extenuating circumstance."

- Minimum Waiting Period Under The New FHA Back To Work Program - Under the new FHA "Back to Work – Extenuating Circumstances" Program, if you have had a foreclosure, short sale, deed-in-lieu of foreclosure, or have filed bankruptcy you may qualify for a new home loan if you are back to work and can document the extenuating circumstances. You must have a 12 month record of on-time rental housing payments with no delinquencies and not have been 30 days late on more than one non-housing loan payment. If there are still any open collection or judgment accounts, then those will have to be factored into your debt calculations for the new loan.
- Foreclosure - 3 years from the date foreclosure completed and property transferred back to the bank. Less than 2 years, but not less than 12 months from the date foreclosure completed and property transferred back to the bank may be possible with acceptable "extenuating circumstances".
- Deed-in Lieu - Same as Foreclosure.
- Short Sale - 3 years from the date sale closed and transferred to the new owner. **No waiting period** if seller/borrower had no late payments on any mortgages and consumer debts

within the 12 month period preceding the short sale AND seller/borrower was not taking advantage of declining market conditions.

- Bankruptcy (Chapter 7) - 2 years from date of bankruptcy discharge with re-established credit paid as agreed or no new credit obligations incurred. Less than 2 years, but not less than 12 months from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances" and the borrower has since exhibited a documented ability to manage financial affairs in a responsible manner. The lender will require a copy of the recorded bankruptcy discharge letter and scheduled of accounts.
- Bankruptcy (Chapter 13) - 1 year from the start date of the bankruptcy re-payment period has elapsed and the borrower's payment performance has been satisfactory and all required payments made on time.

## *Veterans Administration (VA) Guaranteed Loan*

VA Extenuating Circumstances: "Unemployment, prolonged strikes medical bills not covered by insurance, etc. Divorce **is not** viewed as beyond the control of the borrower and/or spouse."

- Foreclosure - 2 years from the date foreclosure completed and property transferred back to the bank. Less than 2 years, but not less than 12 months from the date foreclosure completed and property transferred back to the bank may be possible if credit re-established and paid as agreed and with acceptable "extenuating circumstances".
- Deed-in Lieu - Same as Foreclosure.
- Short Sale - 2 years from the date sale closed and transferred to the new owner. **No waiting period** if seller/borrower had no late payments on any mortgages and consumer debts within the 12 month period preceding the short sale and seller/borrower was not taking advantage of declining market conditions.
- Bankruptcy (Chapter 7) - 2 years from date of bankruptcy discharge. Less than 2 years, but not less than 12 months from the date of bankruptcy discharge may be possible if credit re-established and paid as agreed and with acceptable "extenuating circumstances".

- Bankruptcy (Chapter 13) - 1 year from the start date of the bankruptcy re-payment period has elapsed and the borrower's payment performance has been satisfactory and all required payments made on time.

### *United States Department of Agriculture (USDA) Rural Housing Loan*

Extenuating Circumstances: "Loss of job; delay or reduction in government benefits or other loss of income; increased expenses due to illness, death, etc. Circumstances surrounding the adverse information must have been temporary in nature, and beyond the applicant's control, and have been removed so their reoccurrence is unlikely or the adverse action or delinquency was the result of a refusal to make full payment because of defective goods or services or as a result of some other justifiable dispute relating to the goods or services purchased or contracted for."

- Foreclosure - 3 years from the date foreclosure completed and property transferred back to the bank. Less than 3 years from the date foreclosure completed and property transferred back to the bank may be possible with acceptable "extenuating circumstances".
- Deed-in Lieu - Same as Foreclosure.
- Short Sale - Same as Foreclosure.
- Bankruptcy (Chapter 7 or 11) - 3 years from date of bankruptcy discharge. Less than 3 years from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances".
- Bankruptcy (Chapter 13) - 1 year from date repayment was completed and bankruptcy discharge. Less than 1 year from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances".

### *Conventional Conforming Mortgage Loan (meets Fannie Mae (FNMA) and Freddie Mac (FHLMC) Loan Purchasing Guidelines)*

Conventional Extenuating Circumstances: "Nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations."

- Foreclosure - 7 years from the date foreclosure completed and property transferred back to the bank if there are no acceptable "extenuating circumstances". 3 years from the date foreclosure completed and property transferred back to the bank with acceptable "extenuating circumstances" and at least 10% Down Payment. Primary home purchase and rate/term refinance only (non-owner occupied and second homes not allowed).
- Deed-in Lieu – New Rule = 2 years from completion of a DIL. Old Rule = 7 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with less than 10% Down Payment. 4 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with 10% Down Payment. 2 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with 20% Down Payment. 2 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with 10% Down Payment and acceptable "extenuating circumstances".
- Short Sale – New Rule = 2 years from completion of a short sale.
- Bankruptcy (Chapter 7 or 11) – New Rule = 2 years from date of bankruptcy discharge. Old rule= 4 years from date of bankruptcy discharge. 2 years from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances".
- Bankruptcy (Chapter 13) - 2 years from date of bankruptcy discharge. 4 years from date of bankruptcy dismissal.

# What It Takes To Be a Homeowner

Do you have what it takes to be a homeowner? Now that you've made the decision to buy, you should first make sure you're prepared for the loan application process.

- Do you have a stable source of income that be documented with 2 years of filed tax returns?
- Do you have 2+ years of employment history?
- Do you have a record of paying bills on time?
- Do you have money saved or can you get a gift of your down payment and closing costs?
- Have the funds been seasoned for 60 days or longer in a bank account?
- Do you have the ability to pay a mortgage payment every month, plus additional expenses?

If you've answered yes to these questions, you are well on your way. If it is a savings you are lacking, there is no shame in starting now. It is recommended that you create a budget for your household (if you haven't already) and determine how much you can afford to save each month.

Try to start saving a minimum of 20% of each paycheck in a separate savings account. If you make $4,000/month, that would be $800/month in savings. You will need funds to cover a variety of things when buying a home, including a down payment of some kind, unless you use the VA or FHA loan programs. You will also encounter closing costs and moving expenses. These days, some mortgage lenders are requiring additional cash reserves beyond the down payment. The sooner you start saving money; the better off you will be in the long run.

# Credit & Mortgage Loans


A mortgage is the largest purchase you will make and the higher your credit score is before applying the more money you will save. Taking some time to improve your credit score before you begin the process of buying a home can save you a lot of headache and money in the long run. Negative information on your credit report can hurt your chances of getting a home loan and one with a reasonable rate. Mortgage lenders are requiring higher credit scores today than in the past, during the housing boom. There are still a few options for borrowers with less than perfect credit, but the more you can improve your credit score, the better.

If your score is below 580, you may have trouble qualifying for a home loan and need a larger down payment. If you do all you can to improve your credit score, you will open up more possibilities in terms of loan options and are likely to get a much better interest rate. Lender will use the middle of the three scores to calculate the par interest rate for you mortgage loan so it is very important to know what is showing up with all three bureaus. The "par rate" is also known as the base rate before buy downs can be used. A buy down is the discount fee paid to buy down the interest rate. Even improving your credit score by twenty points could save you an average of 0.25% on your interest rate, which amounts to approximately $3,000-$4,000 in interest savings. For example, the difference in rate between a 580 FICO borrower and a 640 FICO borrower is about 1% or higher. Depending on the loan amount that could equal to thousands of dollars in savings.

Like it or not, the credit report is a very important component to the home buying process. Taking a cold, hard look at your credit report can be the most grueling part of the process, but we're here to remove some of the brain strain for you. Keep reading for a deeper understanding of your credit score, why it is important, and what you can do to improve it.

## *What is a credit report and why does it matter?*

Credit scoring is a system that the credit bureaus have developed to help creditors determine if they should grant you credit and how much to charge you in fees and interest rates.

## *How do I get a copy of my credit report?*

You can request a free credit report every year from www.annualcreditreport.com. You are entitled to a free report each year. Make sure to review each of your reports from Equifax, Experian and Transunion and look for any errors. There are many other websites where you can pull your credit. Just be mindful of those who boast that they offer "Free" credit reports and be sure to read the fine print. There are websites that offer an estimated score and credit monitoring for free such as www.credit.com and www.creditkarma.com. It will alert you when updates have been made and you can get a fresh report each month. You should never have to pay for this type of service. A mortgage or Trimerge credit report is graded differently and may vary from the soft credit pulls you order. Since it is more detailed, the score may vary up to 50 points from a hard credit pull that a lender will use.

If you prefer you can also send in a request form by mail. Complete this form and mail it to the address on the form:

EQUIFAX Experian A world of insight TransUnion

# Annual Credit Report Request Form

**You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies, Equifax, Experian and TransUnion.**

**For instant access to your free credit report, visit www.annualcreditreport.com.**

For more information on obtaining your free credit report, visit www.annualcreditreport.com or call 877-322-8228.

Use this form if you prefer to write to request your credit report from any, or all, of the nationwide consumer credit reporting companies. The following information is required to process your request. **Omission of any information may delay your request.**

**Once complete, fold (do not staple or tape), place into a #10 envelope, affix required postage and mail to:**
**Annual Credit Report Request Service P.O. Box 105281 Atlanta, GA 30348-5281.**

**Please use a Black or Blue Pen and write your responses in PRINTED CAPITAL LETTERS without touching the sides of the boxes like the examples listed below:**

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z  0 1 2 3 4 5 6 7 8 9

**Social Security Number:** ___ - __ - ____

**Date of Birth:** __ / __ / ____
Month Day Year

Fold Here Fold Here

First Name

M.I.

Last Name

JR, SR, III, etc.

**Current Mailing Address:**

House Number

Street Name

Apartment Number / Private Mailbox

For Puerto Rico Only: Print Urbanization Name

City

State

ZipCode

**Previous Mailing Address (complete only if at current mailing address for less than two years):**

House Number

Street Name

Fold Here Fold Here

Apartment Number / Private Mailbox

For Puerto Rico Only: Print Urbanization Name

City

State

ZipCode

Shade Circle Like This → ●

Not Like This → ⊗ ✓

**I want a credit report from (shade each that you would like to receive):**

- ◯ **Equifax**
- ◯ **Experian**
- ◯ **TransUnion**

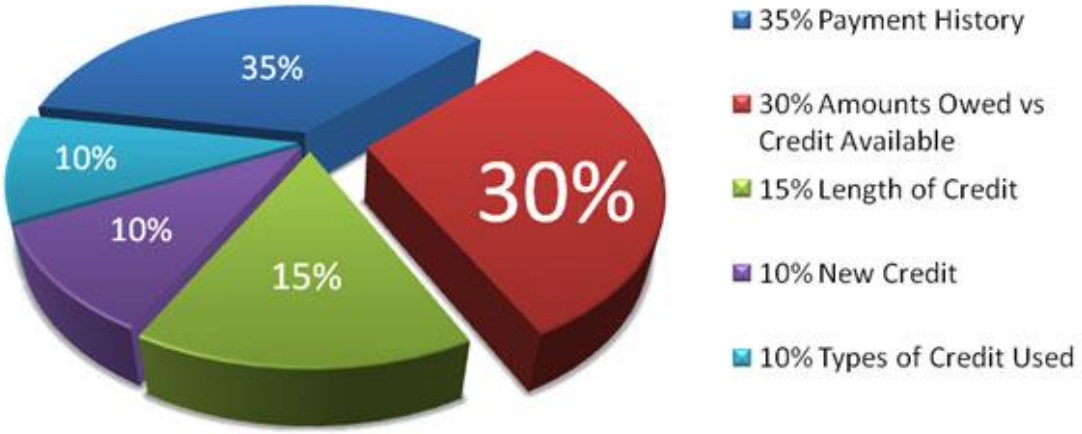
◯ **Shade here if, for security reasons, you want your credit report to include no more than the last four digits of your Social Security Number.**

If additional information is needed to process your request, the consumer credit reporting company will contact you by mail.

**Your request will be processed within 15 days of receipt and then mailed to you.**

31238

A credit score is a calculated rating of your creditworthiness. This score can range between 300-850. 850 mid-FICO score being a perfect score. A credit report, which is basically your credit history as reported to the three major credit bureaus - TransUnion, Experian, and Equifax; is often used by lenders of all kinds, as well as employers, landlords, etc. to determine the likelihood that you will repay your loan(s) and provide clues to your reliability.




*How is my credit score calculated?*

There are five key factors taken into account when your credit score is calculated:

1. Payment history (35%) - It is no surprise that payment history is at the top of this list and has the most impact on your score. It has a direct correlation with your ability to repay your loan on time, and that is primarily what lenders want to know about you when they pull your credit. Late and missed payments are reflected on your report and can decrease your score by at least 20 points each time.

2. Credit balances (30%) - Use it, but don't abuse it. It is good practice to use a maximum of 30% of your available credit. Your credit score is hurt when you go over 30% and even more so when you use up all of your credit or go over your credit limit. For credit cards, best practice is to pay it off at the end of every cycle if you need to use your cards frequently.

3. Account Variety (10%) - Lenders like to see variety in your accounts. It reflects better on your report when you have at least one revolving card (credit card) and one installment loan. Even different kinds of revolving accounts are better than having all department store credit cards. So, mix it up a bit! 10% of your credit score depends on it!

4. New Accounts (10%) - Your account activity on newer accounts is a more accurate reflection of your current financial situation and your current borrowing habits. For this reason, not only is it important to keep your new accounts under control, but also it is important to not open too many accounts in a short period of time. Doing so can negatively impact your score and raise a red flag to lenders inquiring.

5. Account Time (15%)
   Having accounts open longer shows your ability to keep up a good relationship with your existing lender(s) for an extended period of time. This will show potential lenders that you have the wherewithal to maintain a good, lasting relationship with them as well. For this reason, it is best to not close any good standing accounts, even if you do not use them.

## *Collections*

Original creditors legally can sell a charged off debt (they receive a tax credit) to a junk debt buyer for pennies on the dollar. The collection company then sends you an "offer" and discloses in small print that if they do not hear back from you that you are acknowledging the account they hold now belongs to you and they will begin the process of reporting it to the credit bureaus as a collection account. It is always best to immediately respond with a "debt validation request" to force them to prove you have a binding agreement with them with proof of your wet ink signature, which they do not have. Collections on average account for about a loss of 20 points off of your credit score. Paying off a collection older than 12 months old will re-age the account and dropped your score even more. Lenders usually do not require you to pay off any collections unless they are over $2,000, older than 24 months unless it is a rental/housing collection. Some lenders may just calculate the monthly payment at 4% and hit the debt to income ratio. Lenders want to make sure that the collection company does not put a lien on the home once you close. If the lender isn't requiring you to pay it off it is best to let it runs its course for the remainder of the 7 years that it is required to be listed (from the last date of activity) and the credit bureaus will remove it automatically. If the account is less than 11 months old and you settle the account you can try asking for a "pay and delete", but before you agree to pay them for this alleged debt, make sure to have them put it in writing and send you a confirmation first. After you have made the payment, ask for them to send you a letter of satisfaction and report it to the credit bureaus immediately. It is best to also send a copy of your request and proof of the paid debt to each bureau just to make sure it does get done. It can take up to 90 days to update with the bureaus. Medical collections are very common. See if they can rebill your insurance provider.

## *Credit Inquiries*

When you apply for credit, the credit inquiries legally will stay on your credit file with the bureaus for two years. Creditors look to see how many inquiries you do have and if there are too many it may cause a red flag and they may deny your loan. You lose 5 points for each type of inquiry that is done (mortgage, credit card, auto, department store and personal loans) within 14 days. It is best

to shop around within the first few days of pulling the first one to avoid any additional hits to the score.

A *soft inquiry*, or soft pull, is a term used to refer to an inquiry into your credit history that does not adversely affect the credit score. Often, you are not even aware that there has been a soft inquiry on your credit report. For example, if you receive a solicitation in the mail offering you a credit card, the credit card company has most likely conducted a soft pull to see if you qualify. When mortgage lenders preapprove you for a loan, they initially use a soft pull. Potential employers use it as a part of background checks, and your current credit card companies use soft inquiries to check up on you. Banks use them to verify that you are who you say you are when opening an account. If you check your own credit report, which you can do for free once a year, this is done with a soft pull. Most of the time, you do not even know when they occur, and they do not affect your credit report. Credit monitoring sites are considered soft pulls and many creditors offer it as a free service, but also to alert themselves if your credit has fallen. They may cancel or lower your limit if that is the case. Alternatively, if your credit score shows improvement and you have made your payments on time they may raise your limit.

A *hard pull* on a credit report is different; it does affect your credit score. Anytime that you are actually getting a loan or a new credit card, the lender conducts a hard pull on your credit report. This stays on the record. It also lowers your credit score by about five points for six months. For this reason, it is important to guard your credit report from too many hard pulls. If you get a store credit card just to save 10 percent on a single purchase, you have hurt your credit score. That is probably not worth the 10 percent savings. Some banks even use a hard pull if you are opening a savings account, so be sure to check your potential bank's policy. Additionally, the incentives that credit card companies offer for signing up may not be worth the hit to your credit score.

A good rule of thumb for your credit report is to try to avoid any inquiries that are considered hard pulls. By limiting them, your credit will be in good shape and you can qualify for the best interest rate available to you when it comes time for you to apply for a loan that you truly need.

### *Number of Accounts*

Credit cards should be used as leverage to gain buying power, but most people do not understand the concept and get in over their heads. It is generally common practice to have many credit cards with balances on all one's cards, while some are maxed out to the limit; this actually reduces your credit score quite a bit. It is always best to pay off balances each month to avoid high interest and additional fees. You are graded on the amount of credit you are given and how much of the limit you are using. It is best to try not to use more than 30% of your limit to obtain optimum credit score points. People with 800+ scores have several accounts open that they are not using. You need open accounts to keep your score high. When the account is not used for two years or more, the creditor will close the account for your protection and you will not lose any points, but if you close a good standing account you will lose 20 points each. So, if the creditor isn't charging you any service fees, then just leave it open and use it every so often; pay off the balance right away.

As a reminder, you should not open any new accounts until your home loan has closed and funded or you may risk getting denied.

## *Credit Worthiness*

Credit worthiness is a major part of what mortgage lenders review to assess the likelihood that you will default on your loan and if are eligible for a mortgage loan and the mortgage interest rate that is available to you. The lender will request a Tri Merge credit report from Equifax, Experian and Transunion. The credit report is more detailed and graded differently than a report you will pull. It will show your credit history for all open and closed accounts. It will also list your identification, employment, where you have lived, credit inquiries, collections and public records.

## *Compensating Factors*

While your credit scores are very important, it is not the only thing that lenders review in considering your approval for a mortgage loan. Your FICO score (an average score from the three major credit bureaus) is one of the factors, but not the only one. Compensating factors that can balance a lower credit score can include having large down payment, additional cash reserves seasoned in your bank account(s) for 60 days or more and a low debt-to-income (DTI) ratio.

## *Credit Repair*

If looking to refinance your existing mortgage, or buying a home, have a copy of your credit report sent to you at least 90 days in advance of applying for a mortgage loan. Each year you are entitled to a free credit report. It is important for you to pull your credit at least once a year to make sure all information is correct and up-to-date and to keep an eye out for fraudulent activity on your credit report. If you fail to do so, you risk holding up the loan process. You want to make sure your credit report is as ready as it can be.

## *Goodwill Adjustments*

If you've been a good customer, a lender might agree to simply erase that one late payment from your credit history. You usually have to make the request in writing, and your chances for a "goodwill adjustment" improve the better your record with the company (and the better your credit in general), but it can't hurt to ask. Some creditors want you to send in a written request. A longer-term solution for more-troubled accounts is to ask that they be "re-aged".

If the account is still open, the lender might erase previous delinquencies if you make a series of 12 or more on-time payments.

## *Disputing Old Accounts or Errors*

If you have an account that ends up in collections, more than likely the debt will soon be reported to the credit bureaus. If it is an error, you can protest that the charge was unjust, or you can try disputing the account with the credit bureaus. State the facts and request deletion of the account. If the collection company cannot supply proof that you owe the debt with a written contract/agreement, they are required to remove the dispute. (Read more at http://www.consumer.ftc.gov/articles/0149-debt-collection.)

Your credit scores are calculated based on the information in your credit reports, so certain errors there can really cost you, but not everything that's reported in your files matters to your scores. (Read more at http://www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports.) The

older and smaller a collection account, the more likely the collection agency won't bother to verify it when the credit bureau investigates your dispute. The credit bureaus will investigate the account and notify you of the disposition within 30 days.

### *Liens and Judgments*

Lenders will require that all government loans, tax liens, judgments and back child support be current and paid off. Prior to applying for a mortgage arrange to pay off the judgment. Some creditors will accept a settlement for less than the balance due. Make sure to get the settlement in writing prior to paying it off. Mortgage lenders will not close on a new home with an unpaid judgment. They know that if they do, the judgment holder can turn it into a lien and potentially foreclose on the property.

Make sure to get a document of the payoff and the release of the judgment from the county clerk's office and submit a copy to the three credit bureaus right away so you credit file is updated before you apply for your home loan. Keep all the canceled checks and ask for a release of the judgment from the court and save this for the several years for your records. Provide your documentation to the mortgage company when you apply for the new mortgage. The mortgage company will require proof of the judgment's release.

Every mortgage requires title insurance; this insurance guarantees the mortgage lender's first position on the title of the home. Even if the judgment doesn't show up on your credit report, the title insurance company will search for judgments through the county databases.

### *Open Disputes*

If applying for a mortgage loan, it is unacceptable to have any accounts with an open dispute, whether the accounts are open are closed. All disputes must show as resolved, removed or settled. You will have to contact the credit bureaus to ask them to remove the dispute. If you are already in the process of a home loan application you will have to request a rescore to be done to remove the disputes with the credit agency the lender is using. The fee for the rescore may cost about $35 for

each bureau, which will take about 72 hours to come back. The drawback of doing a rescore to remove the dispute is that your credit score will drop 20 points.

The best way is to call the bureaus directly and ask them to remove the verbiage from each account:

Experian
475 Anton Blvd.
Costa Mesa, CA 92626
**714-830-7000** - Ask for an Executive Customer Service Team to end the dispute(s), hours are 8AM-5PM Pacific Time.

Equifax
1550 Peachtree St, NW
Atlanta, GA 30309
**404-885-8300** - Ask for an Executive Customer Service Team to end the dispute(s), hours are 8AM-5PM Pacific Time.

TransUnion
555 W Adams St
Chicago, IL 60661
**312-985-2000** - There is a machine greeting. Stay on the line and you will be transferred to a live person. Ask to speak with representative in the Special Handling Department to end the dispute(s), hours are 8AM-5PM.

# Credit Report Dispute Form

Found inaccuracies in your report? If so, use this form to contact the credit bureau (Experian, Equifax, or TransUnion) that supplied the information. Simply follow the instructions provided, then mail the form to the appropriate credit bureau.

**Instructions**

1) Write the name and account number of the creditor in question under the Item in Dispute section.
2) Write in the reason for your dispute in the Reason for Dispute section.
3) Sign and mail to the appropriate credit bureau.

## 1. Contact Information

Name: ______________________________ Birth Date: ______________

Address: ______________________________________________

City: ________________________ State: __________ Zip: __________

Social Security Number: ________________ Phone: ________________

## 2. Dispute Information

### Item in Dispute

Creditor: ________________________ Account Number: ______________

This information is inaccurate because:

○ This is not my account.
○ This account is in bankruptcy.
○ I have paid this account in full.
○ Other: ______________________________________________
○ I have never paid late.
○ This account is closed.
○ I paid this before it went to collection or before it was charged off.

### Item in Dispute

Creditor: ________________________ Account Number: ______________

This information is inaccurate because:

○ This is not my account.
○ This account is in bankruptcy.
○ I have paid this account in full.
○ Other: ______________________________________________
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Creditor: ________________________ Account Number: ______________

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○ This is not my account.
○ This account is in bankruptcy.
○ I have paid this account in full.
○ Other: ______________________________________________
○ I have never paid late.
○ This account is closed.
○ I paid this before it went to collection or before it was charged off.

## 3. Sign and Mail

Signature: ____________________________________ Date: __________

Mail/call the appropriate
credit bureau.

**Experian**
Call 1-888-397-3742 or visit
www.experian.com/disputes.

**Equifax**
P.O. Box 740256
Atlanta, GA 30374

**TransUnion**
P.O. Box 2000
Chester, PA 19022

# Credit Management

Again, each year, you are entitled to a free credit report. It is important for you to pull your credit at least once a year to make sure all information is correct and up-to-date and to keep an eye out for fraudulent activity on your credit report.

Once you have gotten your credit score back to health, you should take steps to ensure that your credit score remains in good shape. Here are a few tips and a couple reminders to do just that:

- Stay on top of your debt payments. Even one late payment can bring your score down up to 20 points. Setting up automatic debit payments will help prevent payments from becoming past due.
- Keep your credit balances below 30% of your credit limit.
- Do not accumulate *too much* credit. Having too many loans/credit cards can negatively affect your credit. If you have too many accounts, lenders will view you as a high-risk borrower that would be unlikely to pay back your loan/debt.
- Try to eliminate having your credit pulled too often.
- Make sure to budget your credit card charges to pay them in full within 6 months. Use bonuses or tax refunds to tackle those accounts to eliminate paying high interest and junk fees.
- New credit is important to build credit. Try not to apply for too many accounts at one time.
- Creditors like to see at least one installment loan, one credit card and one department store account in good standing when granting credit for a new account.
- ***Do not*** close any good standing accounts; you can lose up to 20 points for each.

# Federal Trade Opt-Out Tip

Do you receive unsolicited credit card applications and junk mail? Many people are unaware that when you have a creditor pull your credit, the credit bureaus have the right to sell your information to thousands of marketing companies for 90 days. The good news is the Federal Trade Commission has given you protection now to stop them from selling your information. Read the information on this website www.optoutprescreen.com. Under the Fair Credit Reporting Act (FCRA), the Consumer Credit Reporting Companies are permitted to include your name on lists used by creditors or insurers to make firm offers of credit or insurance that are not initiated by you firm offers. The FCRA also provides you the right to "Opt-Out", which prevents Consumer Credit Reporting Companies from providing your credit file information for Firm Offers.

Click the blue tab at the bottom and opt out "permanently." Print and sign the authorization form and mail it in right away. Once this has been processed your master credit profile with the credit bureaus will flag your profile that you will be less likely to have your credit pulled (low risk) and this gets graded and improves your score by 20 points. It takes a few weeks to get set up in their system. Normally, for every 20 points you improve your score it will give you about 0.25% better in interests rates for credit cards, auto loans, personal lines of credit and mortgage loans. This could save you thousands of dollars. For more information: http://www.consumer.ftc.gov/articles/0127-getting-mortgage-offers.

If you don't have access to the Internet, you may send a written request to permanently opt out to each of the major consumer reporting companies. Make sure your request includes your home telephone number, name, Social Security number, and date of birth.

| **Experian** | **TransUnion** | **Equifax, Inc.** | **Innovis** |
|---|---|---|---|
| Opt Out Assistance | Name Removal Option | Options | Consumer |
| P.O. Box 919 | P.O. Box 505 | P.O. Box 740123 | P.O. Box 495 |
| Allen, TX 75013 | Woodlyn, PA 1909 | Atlanta, GA 30374-0123 | Pittsburgh, PA 15230 |

If you choose to “Opt-Out,” you will no longer be included in firm offer lists provided by these four consumer credit reporting companies. If you are not receiving firm offers because you have previously completed a request to “Opt-Out”, you can request to “Opt-In”. In doing so, you will soon be among the many consumers who can significantly benefit from having ready access to product information on credit and insurance products that may not be available to the general public.

# Things to Consider Before You Buy

There are several things you will want to do to prepare yourself for buying a home. Most importantly you want to ask yourself if you can afford a new home. Along with the mortgage payment, you will encumber closing costs for the purchase of your home, a home warranty, property tax, insurance, possible homeowner's association dues, furniture, moving expenses, repairs and maintenance and additional utility costs. If you plan on buying a home with another person you may need to consider if the other person is trust worthy and reliable.

It is best to save up a minimum of 20% of your earnings each month for at least 2 years. There are down payment programs that are available for first time home buyers; they require only a minimum of 0.5% down plus any closing costs and prepaid fees that are not covered by seller credit. To get the best rate and loan program available, it is best to have 20% down plus closing costs along with 6 months of reserves set aside if a financial crisis comes up such as a layoff.

Lenders require a minimum of two years in the same line of work to show income stability. They may also allow recent grads that have 30 days of employment along with an offer letter from their employer with a full time position. If you are considering changing jobs or fields it is best to either wait until your loan has closed or let enough time pass before applying for a home loan.

How long do you plan to live in the home? If it is less than 5 years you may want to consider renting still. The first few years of making your mortgage payment is interest only and the cost to purchase the home would offset any gain that you may have. When you sell your home, you will incur more costs such as real estate commissions paid to the listing and selling agent and possible seller credit for the buyer's closing costs and pre-paid fees. If you're looking for a short-term buy, you will want to ask yourself if it is really worth it financially.

Are you thinking about buying a fixer-upper? There are great benefits of buying a fixer upper, but it may be a lot to take on especially for your first home. Having a licensed state contractor complete the work is very important. Any additions will need to be approved by the county and permits will need to be obtained. If you or someone you know has the experience on the rehab of a home, it may not be so difficult. Otherwise, it could become a financial hardship. There are conventional and FHA

mortgage loans that will help you cover the cost of the renovation for a higher interest rate. There are several guideline requirements that need to be approved by the lender before funding, so you may need quite a bit of patience.

# Getting Pre-Approved

After you have checked your credit and are satisfied with the score, then it is time to get pre-approved for a mortgage loan; this is a crucial step in the home buying process. If you start shopping for a home before you have been pre-approved by a lender, you are putting the cart ahead of the horse. You need to start by finding out how much money you can borrow and the pre-approval process will tell you just that. Every first-time homebuyer can benefit from this process. It will help you identify any qualification problems you have (such as a low credit score), and it also helps you establish parameters for your housing search.

Real estate agents won't take you seriously until you get pre-approved by a lender. Put yourself in their shoes and you will understand why. They don't want to spend a lot of their time working with a buyer who might not even be qualified for financing.

The same goes for sellers. They will take you more seriously if you've been pre-approved for a mortgage loan. A pre-approval letter tells the seller that you have been screened by a mortgage lender and will likely receive financing. Of course, this is something the seller wants to know prior to reviewing your offer.

## *Pre-Approval- vs - Pre-Qualification*

Before we go any further, you should understand the differences between prequalification and pre-approval. I recommend that first-time home buyers skip the first option and go straight to pre-approval. Pre-qualification is when the lender takes a quick look at your finances to determine if you're qualified for a loan. It is not nearly as useful as the pre-approval process. Pre-qualification is basically a lead-generation tool for mortgage lenders. They use it to attract potential borrowers. It doesn't serve much purpose beyond that.

Home buyers should also understand that pre-approval does not guarantee financing. It is a conditional form of approval that can be taken away just as easily as it was given. Pre-approval is a helpful tool, and it is highly recommended that you go through the process, though you must realize that it is not a commitment to lend.

## *What is Your Budget?*

The best thing you can do to improve your money management is to make a budget for your household. It is important to factor in as many recurring expenses as you can and make estimates for expenses you don't have exact numbers for. This means including an approximation for groceries, car maintenance and even school or office supplies. If your finances are tight, this is the best way to see where your money is going and how much money you can save each month. If you haven't created a budget yet, it is not too late. It is a good idea to include an emergency savings of at least 2-4 months of mortgage payments in case you come across unexpected expenses. Let's look at budgeting for your new home.

## *How much can you really afford?*

When buying a home, the worst thing you can do is buy more house than you can afford. This is where budgeting can come in handy. You want to take a serious look at how much you can afford to pay each month for your home and move forward from there. In order to get an accurate picture, you will first need to understand that your mortgage payment isn't necessarily the only thing you're obligated to pay each month. These recurring costs can include property taxes, mortgage insurance, HOA dues (condos), and prepaid interest. In addition, you will need to factor in the closings costs for your upcoming transaction. Don't forget to include the estimated utilities!

## *Debt-to-Income Ratio (DTI)*

In order to determine how much of a home you can qualify for your debt-to-income ratio (also referred to as DTI) is calculated based on the percentage of your monthly gross income that goes toward paying debts shown on the credit report, housing expenses for the subject and rental properties, judgments, liens, IRS payments, 2106 expenses written off on the last 2 years filed tax returns, child support and alimony.

1. The first DTI, known as the *front-end ratio (top ratio)*, indicates the percentage of income that goes toward housing costs, which is the rent amount for renters and the PITI (mortgage principal and interest, mortgage insurance premium [if applicable], hazard insurance

premium, property taxes, and homeowners' association dues [if applicable]) for homeowners.

2. The second DTI, known as the *back-end ratio (bottom ratio)*, indicates the percentage of income that goes toward paying all recurring debt payments, including those covered by the first DTI, and other debts such as credit card payments, payments for other homes owned, car loan payments, student loan payments, child support payments, alimony payments, tax installment agreement payments and legal judgments.

*Example* - If the lender requires a DTI of 28/36, then to qualify for the home loan, the lender would go through the following process to determine what expense levels they would accept:

- Using Yearly Figures:
  - Gross Income of $50,000
  - $50,000 x 0.28 = $14,000 allowed for housing expense.
  - $50,000 x 0.36 = $18,000 allowed for housing expense plus recurring debt.
- Using Monthly Figures:
  - Gross Income of $4,166.67 ($50,000/12)
  - $4,166.67 x .28 = $1,167 allowed for housing expense.
  - $4,166.67 x .36 = $1,500 allowed for housing expense plus recurring debt.

In the U.S., for conforming loans, the following limits are currently based on:

- Conventional Jumbo (also referred to as High Balance) financing limits (>$417,000) are typically 28/43 and manually underwritten by underwriters and not ran through the automated approval system.
- Conventional standard financing limits (<$417,000 loan amount) are typically 37/45 for cash out loans and 37/50 for rate and term financing with Fannie Mae or Freddie Mac's automated approval system otherwise known as DO, DU or LP.
- FHA limits are currently 31/43 for those with <620 FICO and manually underwritten loans. For >620 FICO loans, the max limit is set at 47/57 with an automated approval.
- VA loan limits are only calculated with one DTI up to 60% with an automated approval.

- USDA loans are capped at 29/41 with a USDA's automated approval system otherwise known as GUS.

## *Finding Your Dream Home*

It is important to formulate a list of the features and benefits you would like in a home. Main factors you should consider are pricing, location, size, amenities and the design of the home. It is very beneficial to preview homes and attend several open house viewings which can be done by appointment or scheduled days. You can see a variety of options to help you develop a list of your requirements. Your real estate professional will be able to provide guidance and help. Set up a day in advance. Make sure to map out the homes to save time and be more efficient.

## *Consider these factors as you narrow your search:*

- ✓ Quality and availability of schools and libraries;
- ✓ Proximity to work, major highways and mass transportation;
- ✓ Immediacy of shopping, religious centers, hospitals and recreation facilities/parks;
- ✓ Property tax rates, income tax rates and other community expenses as compared with similar homes in other neighborhoods (i.e., association fees, snow and trash removal, common ground maintenance);
- ✓ Utility expenses, trash collection and sewage disposal (past utility expenses are available from the utility company);
- ✓ Availability of public services such as police and fire protection;
- ✓ Local zoning ordinances and condition of other properties in the neighborhood.

## *What kind of home are you looking for?*

As you know, there are several types of homes you can look at: Condominium, Manufactured, Single Family Residence (SFR), Multiple Family Residence, Investment Homes, etc. Some loan types are specific to the property type, so before we can really talk about loan types, we have to talk about what property type you are interested in. This will narrow down the loans you will need to learn about.

When deciding your property type, consider the benefits of each one. With SFR's, you will have a place all to yourself, with a little distance between you and your neighbor. On the other hand, with a condominium or townhome type property, you may have to deal with difficult neighbors, but the burden of the landscaping, roofing and bigger picture items won't be solely yours to bear. In exchange, however, you will have to pay Homeowner's Association (HOA) Fees. With a Multiple Family Residence, such as a duplex, you will be responsible for landlord upkeep and tenant relations, but you will have an extra income source. Manufactured homes are very affordable. There are limited lenders that will finance manufactured homes and there may be several additional requirements, such as the original HUD plate, an affidavit of affixture to show the home has never been moved to a new location and an engineer's foundation report.

Once you have an idea about what you are looking for, you should start considering what you qualify for, which may require adjusting your choice or your timeline for reaching your goal of homeownership.

Remember you can make any home into a dream home with a little work and patience. If the home you love is in need of repairs, then you can look for a home loan that can cover the costs such as a 203K Streamline, 203K Standard or Home Renovation loan.

# Mortgage 101

## *What Do You Qualify For?*

Another important question to ask is 'What type of loan do you qualify for?' Each loan type has its benefits for certain scenarios. FHA Loans, for example, usually require less of a down payment, while conventional loans require higher credit scores, larger down payments and lower debt to income ratios. This is a hard question to answer all on your own, so let's discuss acceptable sources of income first.

The price you can afford to pay for a home will depend on several factors, such as:

- Gross income
- The funds you have available for the down payment, closing costs and cash reserves required by the lender
- Your debt
- Your credit history
- The type of mortgage you select
- Current interest rates

## *What Kind of Loan Should You Get?*

At this point, you've heard the names of a loan types floating around and you might be thinking, 'What kind of a loan should I get?' We can't exactly answer that question here, especially without talking to you and looking at your application and documentation. We *can*, however, arm you with some basic knowledge of loan types and a few loan programs to help you when it comes time to discuss your options with your Mortgage Loan Originator (MLO).


*"A" Paper or Prime Loan*

In the mortgage industry of the United States, A-Paper, also referred as a Prime Loan, is a term to describe a mortgage loan for which the asset and borrower meet the following criteria: a person with a credit score of 680 or higher, can fully documents his/her income and assets, their debt to income ratio does not exceed 50%, has two months of mortgage payments in reserves after closing, and can put down at least 20% down into the transaction. These loan programs are referred to A conventional financing and may have higher rates than FHA/VA/USDA, but can help to avoid having to pay private mortgage insurance (PMI). PMI is charged to the borrower each month to protect the lender in case you default on the payments.

*Prime Rate*

The prime rate is used often as an index in calculating rate changes to adjustable-rate mortgages (ARM) and other variable rate short-term loans. It is used in the calculation of some private student loans. Many credit cards and home equity lines of credit with variable interest rates have their rate specified as the prime rate (index) plus a fixed value commonly called the spread or margin.

**"A" Credit**

This means:

- You have not been late on a mortgage or rent payment in the last two years.
- You have not been late on a car payment in the last two years.
- You have not been more than 30 days late on a credit card payment more than twice in the last two years.
- You have had no collections (other than a small medical collection) or any judgments in the last two years.
- Your credit score is good to excellent, perhaps 680 or better.
- An “A” Paper borrower normally must have at least two months mortgage payments in "liquid reserves". This can be in a checking, savings, investment, or even retirement accounts at any financial institution.

**Sufficient Income**

This means:

- Your total mortgage payments per month are equal to 29% or less of your gross monthly income (your pay before taxes are taken out).
- Your total payments per month (not including insurance, utilities, food) are equal to or less than 36-41% of your gross monthly income.
- You must be able to prove your income. Examples: tax returns, bank statements, pay stubs.

In order to count your full income, you must have been employed in the same line for work for the last two years.

**Stability**

Although credit and income are the biggest two deciding factors on whether or not to give someone a loan, stability plays a part. Good stability means:

- You have been in the same line of work and/or job for 2 or more years.
- You have lived in the same house or apartment for more than 2 years.

| | |
|---|---|
| **Down Payment** | You may be required to bring in a down payment. Typically, you need to have saved up an amount equal to 3.5% of the price of the home (minimum for an FHA loan) to qualify. Some loan programs even allow the down payment and/or closing costs to be paid for with a down payment assistance, grant, monetary gift from a relative or your employer, such as the FHA program. |

The decision whether or not to give you a loan is not dependent on any one of the above factors alone, but on all three. For instance, if you have excellent credit, but no verifiable income, no one will give you an "A" type loan on a new home (and perhaps no loan period, in today's market). You may still be able to get a loan with less than "A" credit, but the application process will be a bit more difficult and the interest rate (and points) will likely be higher.


## *Types of Loans*

### *Conventional vs. Government-Backed Loans*

Let's explain the difference between these two programs. A conventional loan is a loan that is not insured by the government; the lender takes on the risk of losing money in the event that the borrower defaults on the mortgage.

Conventional loans come in a variety of sizes and terms, and may feature either fixed or adjustable interest rates. Conventional loans may be either conforming or non-conforming.

A government-backed loan (FHA, VA and USDA) is insured, either completely or partially, by the U.S. government. The government does not lend money to the borrower; instead, it promises to repay some or all of the money to the lender in the event that the borrower defaults. This reduces the risk for the lender when making a loan.

Government-backed loans can be a good option for borrowers who would not be able to qualify for a conventional loan. Compared to conventional loans, government-backed loans have lower down payment and credit score requirements.

Though government-backed loans can provide flexibility for home buyers, they may carry a higher interest rate than comparable conventional loans, and require the borrower to pay mortgage insurance.

Like conventional loans, government-back loans may be issued with a variety of terms and interest rates.

## *Conforming – vs - Non-Conforming Loans*

A conforming loan meets certain guidelines as set forth by Fannie Mae and Freddie Mac. The best-known of these guidelines is the size of the loan; in most counties in the United States, the current maximum size of a conforming loan is $417,000, though super-conforming loans with higher price limits are available in more expensive counties. Learn more about conforming loan limits.

In addition to the size limit, conforming loans must meet guidelines regarding a borrower's debt-to-income ratio (DTI), and the loan must be properly documented.

Conforming loans are attractive to borrowers because they usually offer lower interest rates.

## *Non-Conforming Loans*

Non-conforming loans are offered to borrowers who do not qualify for conforming loans. Though they are the only borrowing option for some home buyers, they typically have higher interest rates, and may carry additional upfront fees and insurance requirements.

Loans can be non-conforming for several different reasons. The best-known type of non-conforming loan is the jumbo loan.

### *Jumbo Loans*

Jumbo loans are too large to meet the guidelines of a conforming loan. For example, if you are buying a home in a county in which the conforming loan limit is $417,000, and you are taking out a single mortgage for $500,000, you will need a jumbo loan.

As jumbo loans do not meet the standards of a conforming loan, they are more difficult to sell on the secondary market. Lenders are less confident in their ability to resell this type of mortgage, so they will offset their financial risk by charging the borrower a higher interest rate.

### *Other Non-Conforming Loans*

Certain borrowers do not meet the lending guidelines of conforming loans, even if the size of the loan is not an issue. Usually, this is for one or more of the following reasons:

- **Loan-to-Value Ratio (LTV)**: This number represents the percentage of the home's purchase price that you pay for with a mortgage. If the home costs $100,000, and you take out a mortgage of $80,000, the LTV ratio is 80%. Typically, you can borrow up to 90% of the home's purchase price and still qualify for a conforming loan. Anything higher than a 90% LTV ratio may disqualify you.
- **Credit Score and History**: As of December, 2009, borrowers need to have a solid credit history, reflected by a credit score of at least 620. A lower credit score may disqualify you from getting a conforming loan.
- **Documentation Problems**: Conforming loans require complete documentation of employment history, income, and assets. If you can't provide all of this documentation, you may not qualify for a conforming loan.

- **Total Debt**: If your total debt load is very high, you may have trouble getting a conforming loan.
- **Recent Bankruptcy**: Borrowers who are recovering from a recent bankruptcy (within the past two years) may not be able to secure a conforming loan.
- **Debt-to-Income Ratio (DTI)**: If your monthly mortgage , insurance, taxes, and other consumer debt payments add up to more than 45% of your monthly pre-tax income, you may not qualify for a conforming loan.

## *Advantages of a FHA Loan*

- Require a smaller down payment (3.5% minimum vs. 5.0% minimum)
- You can buy a home with as low as a 500 FICO score (620 minimum for Conventional)
- Higher DTI's allowed to qualify (Conventional is capped at 45% cash out and 50% for purchase or rate and term refinances)
- FHA loans are assumable (An assumable mortgage allows a buyer to assume the rate, repayment period, current principal balance and other terms of the seller's existing mortgage rather than obtain a brand-new mortgage)
- FHA loans are eligible for "streamline" refinances (requires limited income, asset and credit documentation to refinance into a lower fixed rate)
- Shorter timeframe following major credit problems (3 years vs. 7 years for foreclosure and 2 years vs. 4 years for bankruptcy)
- FHA loans typically will have a lower base interest rate than a comparable conventional loan; this offsets the higher private mortgage payment each month
- Non-occupant co-borrower (relative) may be used for qualifying by blending ratios

## *Advantages of a Conventional Loan*

- Mortgage insurance is required for loans exceeding 80 percent loan-to-value (Mortgage insurance is required on all FHA loans regardless of the loan-to-value)
- Conventional mortgage insurance is only monthly or single premium (FHA is upfront and monthly premiums)

- Conventional mortgage insurance will automatically end at 78 percent loan-to-value (FHA will stay for the entire life of the loan)
- Conventional mortgage insurance is credit sensitive (For FHA, one premium fits all)
- Conventional loans can cover much higher loan amounts (FHA over county limits)
- Conventional loans cover more types of loans (FHA doesn't do investment or second homes)
- Even though conventional loans may have higher interest rates, their monthly payments may still be lower

### *Adjustable Rate Mortgages (ARM)*

ARMs are generally not a good idea for long-term purchases. The initial interest rate is normally fixed for a period of time after which it is reset periodically, often every month. The interest rate paid by the borrower will be based on a benchmark plus an additional spread, called an ARM margin. An adjustable rate mortgage is also known as a "variable-rate mortgage" or a "floating-rate mortgage". They are good for keeping the initial payments lower on the home to make it more affordable and in the same way, they benefit those who are likely to sell in a few years. ARMs are riskier loans because you may not qualify for a refinance after the fixed period, after which the payments can fluctuate up to a couple hundred dollars. This puts the borrower at risk financially if they are not prepared for unstable payment amounts. Bottom line, ARMs are best for short-term rentals or borrowers who have sufficient income, but may not have much disposable income upfront (during the projected fixed period).

### *Fixed Rate Mortgages*

Fixed rate mortgages have a fixed payment for the term of the loan, which can be for 10, 15, 20, 30 and sometimes 40 years. The benefit of a fixed-rate mortgage is that the homeowner will not have to be concerned about fluctuating payments like on an adjustable rate mortgage.

## *MyCommunity Mortgages (MCM)*

Fannie Mae has an expanded criteria program with easier qualifications for First Time Home Buyers.

- Up to 97% financing
- No prior credit history is required
- No minimum contribution from the buyer's own funds
- Fixed or adjustable rate loans available with interest-only options
- Loan terms up to 40 years (most lenders do not offer this option)
- Reduced mortgage insurance requirements to help keep payments affordable

In addition to these program highlights, the My Community Mortgage program also allows the use of part-time income to qualify for the loan for the following professionals:

- teachers & educational institution employees
- police officers, EMT and firefighters
- health care workers
- persons with disabilities (or those living with a family member with a disability)
- people living in underserved areas throughout the country, including many hurricane-damaged areas in Louisiana, Mississippi, Alabama, and Texas

## *Reverse Mortgages (HECM)*

A reverse mortgage is a home loan that provides cash payments based on home equity. Homeowners typically defer payment of the loan until they die, sell, or move out of the home. Upon the death of the homeowner(s), the spouse, children or next of kin can either give up ownership to the home or must refinance the home to purchase the title from the reverse mortgage company. For a person 62 years of age or older who wants to utilize his home to supplement cash flow and does not want to worry about budgeting to pay it back, it is great program. Another idea is to use a reverse mortgage as an early inheritance for family members.

## *Overview of Mortgage Loans*

After reviewing your credit, down payment, reserves and your debt to income ratio, your loan officer should have several options for you and the best way to shop for the mortgage is to compare the annual percentage rate (APR) % listed on the truth-in-lending disclosure (TIL) along with the total payments made over the life of the loan; both figures are listed at the top of the disclosure. These disclosures are required to be given to you within 3 days of pulling your credit report. It is best to compare at least three offers from different lenders.

## *What is the Difference between the Interest Rate and the APR?*

To find the best overall mortgage loan compare the interest rate and the APRs of all the offers. The interest rate is the cost you will pay each year to borrow the money, which is expressed as a percentage rate. The rate does not reflect the fees or any other charges you may have to pay for the loan.

The APR is the actual cost of a mortgage expressed as an annual rate and is a broader measure what it will cost you to borrow the money for your home over the term of the loan. The APR reflects the interest rate along with other charges that you have to pay to get the loan such as origination fees, discount fees, mortgage insurance premiums, and prepaid mortgage interest. This is why your APR is higher than your interest rate. To reduce the APR, you can always opt to pay for the closing costs out of pocket or outside of the loan at closing or putting more money down to eliminating PMI on the loan.

# PMC's Loan Programs

- Conforming Fixed & ARM 620+ FICO
- Conforming High Balance
- Conventional - to 47/57% DTI
- Conventional - to 93% with NO PMI
- Conventional - up to 4 & 10 financed properties
- Portfolio – up to 20 financed properties and unlimited properties
- My Community - to 97% LTV
- HomePath Financing – to 95% No Appraisal & No PMI
- Freddie LP Relief Refi - HARP 2
- Fannie Mae DU Refi Plus - HARP 2
- FHA Fixed & ARM - to 47/57% DTI
- FHA Portfolio 500+ FICO 10% Down
- FHA 203K
- FHA $100 Down HUD/ HUD REO Homes
- FHA Good Neighbor Next Door (50% of list price)
- Down Payment Programs/Mortgage Credit Certificate Programs
- Reverse Mortgage HECM – Purchase or Refinance
- Lite Doc – Owner Occupied/2nd Home to 80% LTV
- 2-24 months Bank Statement Programs (Business or Personal)
- Non-Prime 500+ FICO to 95% LTV – 1 day of out BK/Foreclosure/Short Sale
- USDA 580+ to 102% LTV Financing
- VA Purchase & VA IRRRL Refinance – No Min FICO Cash Out to 100% LTV
- Foreign National – 680 FICO to 80% LTV
- Jumbo - to 89.99% LTV No PMI (Max $2 Million)
- Manufactured Home Loan (Conv and FHA)
- Commercial Loan - Max $10 Million
- Hard Money - to 80% LTV ….. And Many, Many More!

# The Loan Process

Now, that you've got your credit report in order and your budget completed, it is time to get pre-approved and complete your loan application. Some lenders have a paper application that is required to be submitted, but many have online applications or they may send you a link to do complete the application electronically. Before discussing what loan documentation you will need, you should familiarize yourself with the general loan process timeline so you know what to expect next.


## *Timeline*

Below, you will find PMC's loan process timeline for home purchases or refinances. Not every company's timeline is the same, but this will give you a general idea of what you can expect from your mortgage broker and what will be expected of you. We'll discuss the details in the coming sections.

1. PMC Receives Completed Online Application (www.pmccanhelp.com)
2. PMC pulls credit, analyzes the complete application and renders a pre-approval or decline. If needed, PMC will issue a pre-approval letter and/or automated approval (24 Hours)
3. PMC emails the broker disclosures to the borrower(s) to sign and return with any additional documents needed (24 Hours)

4. PMC collects any additional required loan application documents (Such as verification of employment, verification of rent, verification of private mortgage history (if applicable), verification of seasoned assets (if bank/asset statements cannot be supplied), Insurance Binders, Title/Escrow Docs, etc.) (24-48 Hours)
5. PMC submits the loan application to the appropriate lender once all required documents are received (complete submission is required by all lenders)
6. Lender registers the submission and issues their e-disclosures to the borrower and the file gets placed in-line for an underwriting approval (depending on the lender can take up to 5 business days)
7. Due to the Mortgage Disclosure Improvement Act of 2008 (MDIA) regulations, the appraisal may not be ordered until the lender disclosures have been emailed or after the borrower acknowledges the lender issues e-disclosures.
8. PMC Receives lender approval and proceeds to clear any conditions and the rate lock can be completed and docs can be requested (72 Hours)
9. Lender will re-disclose to the borrower(s) usually by email (24 Hours)
10. Once the lender has given a (CTC) clear to close the loan will go through Quality control (QC) is done with a 2nd level review by the lender/investor (48 Hours)
11. Lender clears the file for docs (48 Hours)
12. Escrow receives docs and prepares it for signing with a Notary (24 Hours)
13. The borrower(s) signs the loan documents
14. The seller signs (If Purchase)
15. Signed loan documents are sent back to the lender by Escrow (24 Hours)
16. The lenders reviews the signed docs and issues funding conditions (48 Hours)
17. PMC and Escrow will coordinate to meet the funding conditions
18. Then lender funds the loan, releases the wire to Escrow (24 Hours)
19. Escrow disburses the wire and records the new lien with the county recorder's office (24 Hours)
20. Borrowers are now officially homeowners and can receive the keys to their new home (if a Purchase)

# Loan Document Checklist

## INCOME

### *IF FULL DOC - WAGE EARNER*

- ☐ Pay stubs with YTD totals dated within **the last 30 days** of submission
- ☐ Last 3 years of W2s/1099's forms
- ☐ **Signed** personal tax returns for the past 3 years with all schedules - These must be the exact figures that were filed with the IRS.
- ☐ Physical work address for all jobs in the past **two years**
- ☐ Letter of Explanation of any gaps or position changes in the last two years
- ☐ Correct job title
- ☐ Main contact phone numbers For Verbal Employment Verification
- ☐ Fax numbers for HR/Payroll department for Written Employment Verification
- ☐ School transcript or college diploma to use in lieu of 2 year same line of work (if applicable)-make sure school history is listed on application under employment

### *IF FULL DOC - SELF EMPLOYED*

- ☐ CPA **unaudited** Profit & Loss statement for Current Year to Date
- ☐ **Signed** Business Tax Returns with all schedules for the past 3 years with all schedules (Sched C Self Employment, Sched E Rental Income, 1120, 1065 and Sched K-1)
- ☐ Current Copies of the last 2 years of Business Licenses
- ☐ CPA letter (% of ownership, note the type of business, how long in business, under what name, and note which tax forms are filed) on their letterhead – listing their active business license number
- ☐ If no longer self-employed, we will need a letter from CPA stating when business closed.

### *FIXED INCOME*

- ☐ Most recent SSI/Retirement/Pension awards letters (all pages)
- ☐ Last 60 days of true bank statements (all pages & nothing crossed out) showing income deposits
- ☐ Last 3 years of 1099's for SSI/Retirement/Pension

### *CHILD SUPPORT/FOSTER CARE INCOME*

- ☐ Recorded child support order or divorce papers showing award amount (all pages)
- ☐ Awards letter from divorce papers /Social Services Foster Care Services (showing 3 years continuance and/or letter last 2 years payment history)
- ☐ Birth certificate for child(ren) to show 3 years continuance of support income

## ASSETS

- ☐ Last 60 days of true bank/asset statements (showing full account number & name of borrower, all pages & nothing crossed out; funds must be seasoned for 60 days) (print summaries are not acceptable) (if money was transferred from one account to another on that statement we will need both)

- ☐ If banks have changed, include a Signed/Dated Letter of Explanation
- ☐ Paper trail of all deposits not related to payroll deposits (copy of deposit slips & checks) and letter of explanation for each deposit over $100
- ☐ Cancelled Earnest Deposit (Front & Back Showing Cleared the Account)
- ☐ Gift letter (if applicable) – note on section 5 the acct # and bank name and if funds will be wired to escrow at closing from giftor's account

## MARITAL STATUS

- ☐ Recently married, copy of certified marriage license
- ☐ Recently divorced, copy of recorded divorce decree
- ☐ Legal Recorded Separation listing separated liabilities
- ☐ Death Certificate

## MORTGAGE STATEMENTS

- ☐ If more than one property, mortgage statements showing property address showing escrow breakdown (if applicable)
- ☐ If mortgage has been transferred, notification letter

## INSURANCE

- ☐ Declaration page showing premium and coverage for subject property with phone and fax number of agent
- ☐ Declaration page for any additional properties
- ☐ Homeowner's Quote for new home purchase with invoice to be paid at closing

## TITLE/ESCROW

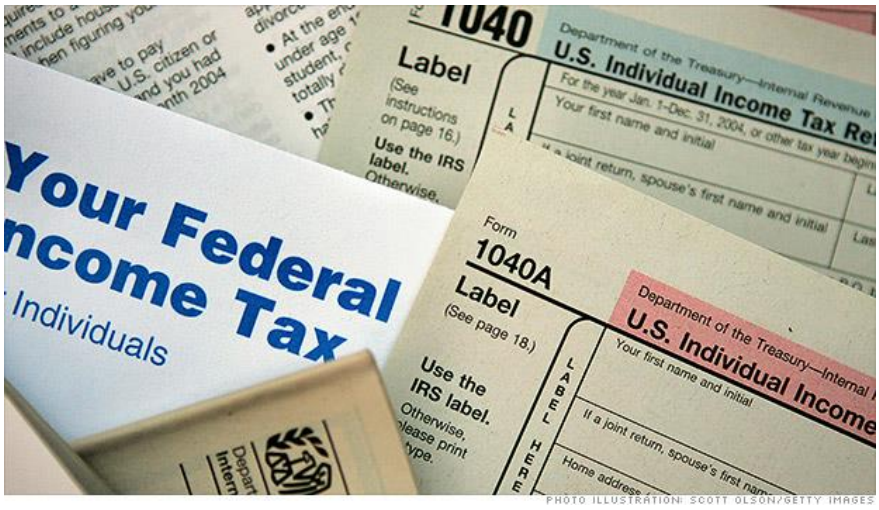
- ☐ Any release of liens
- ☐ Payoff for any open liens or judgments
- ☐ Escrow and Title Contact info along with email address for agent/docs
- ☐ Receipt of Earnest Deposit (if purchase)
- ☐ Legible Executed Purchase Contract, Addendums and Counter Offers (page 8 of 8 to be completed)
- ☐ Termite Waiver or Termite Report & Clearance Report (signed and dated by borrower(s)
- ☐ Point of Contact for the entry to complete the appraisal
- ☐ If property flip purchase within 90 days and over 20% increase; credit card authorization for 2nd appraisal to be paid by someone other than the borrower

## MISCELLANEOUS

- ☐ Signed/Dated Detailed Letter of Explanation for derogatory accounts on credit report
- ☐ Initial / Lender Disclosures signed and dated by borrower(s) and MLO for the date of the credit pull
- ☐ Borrower's Email address(s) and cell phone numbers
- ☐ Current Yearly Rental agreements and any pending rental agreements

- ☐ If living rent free, Signed/Dated Letter of Explanation of current living situation
- ☐ Those with Fico Scores below 620; Leasing Office name/phone # and email/fax# for Verification of Rent or if it is a private landlord 12 months cancelled rent checks
- ☐ For those requesting down payment assistance, First Time Homebuyers Course Certificate is required and can be obtained online (cost is $50) from http://ehomeamerica.org.
- ☐ Verification of Rent from a Leasing Office or 12 months cancelled checks (front and back) and all collections must be paid in full
- ☐ Scanned copies of Valid ID and Social Sec card & if applicable Front/Back Resident Green Card
- ☐ Recorded bankruptcy papers if discharged or dismissed with **all schedules**
- ☐ Letter from Creditor removing dispute verbiage from borrowers credit file
- ☐ The underwriter may require collections over $5000 or 12 month old to be paid. A letter of satisfaction may be required.
- ☐ Property Tax Bills for all properties owned
- ☐ Letter from employer to explain any job related expense reimbursements shown on check stubs and print summary of all reimbursements
- ☐ Letter of Explanation of cash out (if refinance)
- ☐ Letter of Explanation of intent for vacating/renting current home and purchasing new one (if conversion purchase to a larger home)
- ☐ If omitting current home mortgage liability from the ratios, credit card authorization for an appraisal with rental survey to prove 30% + equity
- ☐ FHA: If married; borrowers authorization from non-borrowing spouse, copy of their ID and Social Security Card (they will also need to sign documents at closing relinquishing rights to the property

# Acceptable Sources of Income




The most critical aspect of the loan approval process is verifying adequate income to qualify for the mortgage loan. The basic requirement is to show over two years of stable income from either a W2 paying position or two years filed tax returns for self-employed business owners or 1099 independent contractors. Calculating income can be a very tedious task, but is very important to do correctly. A loan officer will collect the required documents to process your pre-approval. This is how the income is analyzed:

1. (Line 1 1040EZ and Line 7 1040 & 1040A) Wages/Salaries: Depending on the DU/DO Approval (automated approval) conventional mortgage loans may only require one year filed tax returns with 30 days check stubs and a (VOE) written verification of employment form, if wage earner. This is helpful for many self-employed borrowers who show a higher income last year. FHA requires two year average in the same line of work.

    a. To use tips, bonuses, expense reimbursement and other income the VOE form must show an average for 2012, 2010 and 2009 YTD in section 12B. The boxes in 14 must be marked “yes” in order to use them. Some borrowers have pre-taxed deductions that will not show up on the tax returns on line 7. Use the figure on #5 of the W2s to get the average YTD income.

b. Subtract any income reported on Form 1040 that has been verified and underwritten based on current information or that does not belong to the borrower. This type of income would include salary and hourly compensation, income from a spouse or ex-spouse that is not applying for mortgage credit, other income more appropriately underwritten based on current earnings rather than historical. Cross-reference the amount reported on Form 1040 against the amount indicated on the borrower's Form W2.

c. Sched A/2106 expenses must be deducted and averaged for the current year to date earnings. Unreimbursed employee expenses appear on Schedule A and indicate the borrower is subject to certain business expenses that must be factored in the analysis. Note that when the borrower recognizes "actual expenses" rather than using the "standard mileage rate," the lender must analyze the "actual expenses" section of the form checking for lease payments. Add back actual lease payments to ensure that the expense is recognized only once. If the borrower has claimed automobile depreciation on Form 2106, this expense should be added to the borrower's income. Vehicle depreciation can be calculated one of two ways – by using the standard mileage deduction or actual depreciation expense. The method used by the borrower will be disclosed on the second page of Form 2106. If the borrower used the standard mileage deduction, multiply the business miles driven by the depreciation factor for the appropriate year and add the calculated amount to Total Income. If the borrower claimed the actual depreciation expense, add this amount to Total Income.

d. (Line 2 1040EZ and Line 8 1040 & 1040A) Taxable Interest (2 years average required). Add any tax-exempt interest income included on Form 1040 to the Total Income if it is likely to continue and is verified as recurring income. Taxable interest income and dividend income reported on Form 1040 will be addressed by analyzing Schedule B (Form 1040). This analysis should focus on the continuance of any interest or dividend income. (See analyzing Schedule B.) Subtract nonrecurring interest income from Total Income. This includes interest income from assets used to complete the subject

transaction. Document the existence of the accounts on which the interest is earned and confirm that the balances have not significantly decreased. Subtract any interest income from seller-financed mortgages that have less than three years remaining in the contract or that is unstable because of delinquent repayment. (Note that the principal portion of installment payments received is reported in Schedule D and Form 6252 [*Installment Sale Income*])

2. (Line 9 1040 & 1040A) Dividend Income (2 years average required): Document that the assets producing dividend income exist and are owned by the borrower. Deduct nonrecurring dividend income from Total Income.

3. (Line 11 of 1040) Alimony income: Subtract from Total Income any alimony income that does not meet the following criteria:
    a. The receipt of alimony income has been documented as stable for at least 12 months;
    b. The payments will be on-going and consistent with the level reported on Form 1040 for a minimum of three years; and
    c. The alimony payments are made as a result of a divorce decree or written and signed agreement that is a legal obligation.

4. (Line 12 1040) Sched C Business income (or loss) adding back in depreciation, depletion, amortization and mileage. Vehicle depreciation can be calculated one of two ways – by using the standard mileage deduction or actual depreciation expense. If the borrower used the standard mileage deduction, multiply the business miles driven by the depreciation factor for the appropriate year and add the calculated amount to the borrower's cash flow. **Business Use of Home:** Add to Total Income any expenses for business use of home. **Amortization/Casualty Loss:** Amortization expenses are usually onetime costs that are distributed over a period of time and can therefore be added to Total Income. Casualty losses are typically nonrecurring, add them to Total Income.

5. (Line 13 1040 and Line 10 1040A) Capital gain (or loss) Examine Schedule D (Form 1040) to determine whether capital gains should be added to or whether capital losses should be

subtracted from Total Income. (See analyzing Schedule D.) Note that we negated Schedule D gains or losses earlier. Evaluate the consistency and likelihood of continuance of any gains or losses reported on Schedule D. Compare at least two consecutive years of Schedule D to determine whether or not the income or losses are recurring. Confirm the likelihood of continuance by obtaining documentation that supports the borrower's ownership of assets that will produce future gains or losses. Also, ensure that pass through income from Schedule K-1 is not included.

6. (Line 11A 1040A) Taxable amount of individual retirement account (IRA) distributions. (Includes simplified employee pension [SEP] and savings incentive match plan for employees [SIMPLE] IRA.) Taxable amount of pension and annuity payments. The non-taxable portion of IRA distributions, pension, or annuity income is not included in Total Income reported on Form 1040. However, total distributions should be used as qualifying income provided the distributions are likely to continue for a minimum of three years and at their reported levels. Pension agreements or account verifications must be obtained to confirm the continuance of this income. On Form 1040, total distributions are reported, however, only the taxable portion of total distributions is included in the borrower's Total Income. To determine the tax-exempt portion of this income, calculate the difference between total distributions and the taxable portion and add the difference to Total Income by recording the calculated amount on Line 7 of our form. The tax-exempt portion of this income can be grossed up according to the guidelines that address tax-exempt income.

**7.** (Line 17 1040) Rental real estate, royalties, partnerships, S corporations, trusts, etc.: Negate all income (subtract) or loss (add) from rental real estate, royalties, partnerships, S corporations, and trusts. Each component of Schedule E (Form 1040) income (loss) reported on the first page of Form 1040 will be analyzed separately. This approach will help avoid complications that may arise if nondeductible losses occur. Sched 1065: **Ordinary Income (Loss):** Subtract ordinary losses from the borrower’s income. Add ordinary income from the Schedule K-1 to borrower’s income only if: the business has positive sales and earnings trends; the business has adequate liquidity to support the withdrawal of earnings (Review the history of withdrawals shown in the analysis of partner's capital account on the first page of the Schedule K-1 to determine a

history or pattern of prior withdrawals. Review the partnership's financial position and liquidity to determine the overall ability of the business to support the borrower's withdrawal of earnings.); and, the borrower can document ownership and access to the income through a partnership resolution. (A majority ownership position, as disclosed on the first page of Schedule K-1 and indicating a majority ownership of capital, will provide sufficient evidence.) **Net Income (Loss):** Add continuous and on-going income to the borrower's income if the three conditions listed above are met and the income is not reported elsewhere in the borrower's tax returns. (Note that portfolio income, such as interest, dividends, and royalties, listed on Schedule K-1 is reported elsewhere on the 1040, therefore no adjustment is required.) Subtract on-going losses from the borrower's income. **Guaranteed Payments to Partner:** Add guaranteed payments to partner to the borrower's income when the borrower has at least a two-year history of having received them.

## Rental Income Calculator

| **STILL A RENTAL?** | | | | YES | | NO |
|---|---|---|---|---|---|---|
| **SUBJECT PROPERTY?** | | | | YES | | NO |
| **LINE #** | **Year 1** | **Year 2** | **Year 1** | | **Year 2** | |
| Rents Received | 3 | 4 | + | | + | |
| Insurance | 9 | 9 | + | | + | |
| Mortgage Interest | 12 | 12 | + | | + | |
| Taxes | 16 | 16 | + | | + | |
| HOA Dues | | | + | | + | |
| Depreciation | 18 | 18 | | | | |
| **SUBTOTAL** | | | = | | = | |
| Less Sub-Total of Expense | 20 | 20 | - | | = | |
| | | | | | | |
| **NET SUB-TOTAL:** | | | = | | = | |
| **TOTAL 2012/2011** | | | | | | |

| | | |
|---|---|---|
| Divided by # of months | / | |
| Net monthly rent | = | **#DIV/0!** |
| Principal & Interest - current | - | |
| Insurance - current | - | |
| Taxes - current | - | |
| HOA dues - current | - | |
| Other | - | |
| Total PITIA | | |
| **NET RENTAL INCOME** | **$** | |
| % of Ownership | % | |
| **TOTAL NET INCOME** | **$** | |

8. (Line 18 1040) Farm income (or loss): **Non-taxable Portion Ongoing Coop and CCC Payments:** Certain federal agriculture program payments, coop distributions, and insurance/loan proceeds are not fully taxable. Add the nontaxable portion of these income types to Total Income. However, caution should be exercised when including them. These sources of income may or may not be stable or continuous. Do not include any income that represents a one-time occurrence or is not stable. **Nonrecurring Other (Income) Loss:** Other income reported on Schedule F represents income received by a farmer that was not obtained through farm operations. If this income cannot be documented to be stable, consistent, and recurring, subtract Other Income and add Other Losses from income.

9. (Line 19 1040 and Line 13 1040A) Unemployment compensation payments (can be used if seasonal employee): Nonrecurring unemployment compensation payments must be subtracted from Total Income. However, if it is typical for the borrower to be laid off seasonally (for example, a construction worker or landscaping laborer) do not subtract the reported amount from Total Income. Unemployment compensation must appear in two consecutive years of tax returns and must be relatively consistent. In addition, the borrower's current job must be subject to the same seasonally affected layoff. If these conditions do not exist, subtract the amount reported from Total Income.

10. (Line 20A 1040 and Line 14a 1040A) Taxable amount of Social Security benefits: Determine the difference between the total and the taxable social security benefits paid to the borrower and add the calculated amount to Total Income. In addition, deduct any nonrecurring taxable benefits. Supporting documentation must be obtained (statement of benefits) to confirm the continuance of this income. Scheduled benefit payments must continue for a minimum of three years to be considered as qualifying income. The tax-exempt portion of this income can be grossed up according to the guidelines that address tax-exempt income.

11. Other income. (Includes: prizes and awards; gambling, lottery or raffle winnings; jury duty fees; Alaska Permanent fund dividends; reimbursements for amounts deducted in previous years; income from the rental of property if not in the business of renting such property; and income from an activity not engaged in for profit):

    *Sales of Business Property* - **Recurring Capital Gains/Losses:** Add recurring gains to Total Income.

    *Installment Sale Income* - **Principal Payments:** Only gains, losses, and principal repayments are reported on this form (interest income is reported on Schedule B) and are carried forward to Schedule D and Form 1040. Schedule D gains or losses were negated in the first part of the analysis. Add principal payments to the borrower's income only when they are determined to be stable and recurring. Obtain a copy of the note or contract to verify that payments will continue for at least three years and deduct recurring losses from Total Income.

## *Rent and Royalty Income*

Income or losses reported on Schedule E was initially negated in the first part of the analysis. In this section of the worksheet, determine to what extent income or losses from real estate rental activities and royalties can be included in the analysis. Income or losses from partnerships and S corporations, which are also included on Schedule E, will be addressed below.

**Gross Rents and Royalties Received:** Before analyzing the cash flow from rental properties, confirm that the borrower continues to own and rent all properties referenced in the schedule. Cross-reference the schedule of real estate owned as reported on the mortgage application with those listed in Schedule E and with mortgage obligations appearing on the credit report. Add on going gross rents received to Total Income. If the borrower has listed royalty income, it should be verified as on going and consistent before including it as usable income. Add royalties received to the borrower's income when they are ongoing for three or more years.

**Total Expenses before Depreciation:** Subtract from gross rental income the total amount of expenses paid for property maintenance and upkeep. This includes all expenses reported on Schedule E except depreciation. The resulting calculation is the actual income from rental real estate activities.

a) **Amortization/Casualty Loss/Nonrecurring Expenses:** A borrower may occasionally claim amortization, casualty losses, or a one-time extraordinary expense, such as a new roof. When an amount is reported in Schedule E for these type expenses, add it back to Total Income.
b) **Insurance, Mortgage Interest, and Taxes:** Add back the insurance, mortgage interest, and tax expenses reported on Schedule E when using the full PITI payment for all rental property to calculate the borrower's qualifying ratios. Confirm that PITI payments include all elements – insurance, mortgage interest, and taxes. The initial step to negate Schedule E income or loss cancelled out the effect of depreciation, depletion, and passive loss limitations on cash flow, therefore no adjustment is required for either of these items. When using other cash flow worksheets that do not calculate actual losses, add depreciation and depletion expenses to the borrower's income. In addition, determine whether or not any properties were subject to passive loss limitations or used prior year un-allowed losses. Prior year un-allowed losses should be added back to cash flow and passive loss limitations should be subtracted. This step is not necessary, however, when using this worksheet.

## *Business Cash Flow: Partnerships, S Corporations, and Regular Corporations*

Any individual that has a 25% or more ownership interest in a business to be self-employed. The lender must analyze business tax returns to determine whether income from a Partnership, S Corporation, or Regular Corporation can be used to qualify the borrower. The business must show a consistent pattern of profitability for the income to be used. Losses identified by the lender's analysis must be deducted from the borrower's income since they represent a drain on cash flow.

## *Partnership – Form 1065*

A partnership's distributive earnings and losses are reported on Form 1065 for informational purposes only. The partnership does not pay taxes. Any income or loss is passed through to the partners, with their distributive shares being reported on Schedule K-1 (Form 1065). The borrower's share of ordinary (net) income or loss from a partnership has already been addressed in the evaluation of Schedule K-1 (Form 1065). The analysis of Form 1065 will enable the lender to consider certain adjustments to the ordinary income or losses reported on Schedule K-1.

When analyzing Form 1065, only the partner's share of income or loss adjustments should be used to calculate income. The partner's share is based on his or her percentage of capital ownership as reported on the Schedule K-1. The worksheet provides for this calculation.

**Pass through (Income) Loss from Other Partnerships:** Income and losses from these sources should generally not be recognized. In this case, the partnership is a partner in another partnership. Before any of this income can be used to qualify the borrower, additional documentation is needed to support distributions are being made to the borrower's partnership. In addition, the three conditions governing the use of K-1 income must be met relative to the partnership. In general, subtract ordinary income from other partnerships and add any ordinary losses from other partnerships.

**Nonrecurring Other (Income) Loss:** Subtract other income or add other losses that are not consistent and recurring.

**Depreciation:** Add depreciation to income.

**Depletion:** Add depletion to income.

**Amortization/Casualty Loss:** Add amortization or casualty loss to income.

**Mortgage or Notes Payable in Less than 1 Year:** These obligations may significantly affect the financial operations of the business. Subtract the amount of mortgage or note obligations payable in less than one year, as reported in Schedule L of Form 1065, end of year column. If there is evidence that these liabilities regularly rollover and/or there are sufficient liquid business assets to cover them, no deduction is necessary.

**Meals and Entertainment Exclusion:** Subtract the meals and entertainment exclusion reported on Schedule M-1 of Form 1065 from the business income.

**Subtotal:** Add/Subtract all amounts on lines 40 to 46 to determine the amount to be recorded on this line.

**Partnership Total:** Multiply the subtotal (line 47) by the borrower's ownership share of the partnership. The borrower's share of ownership is based on his or her percentage ownership of capital (at end of year) as reported on the Schedule K-1.

**S Corporation – Form 1120S**

Form 1120S represents an S corporation's distributive earnings and losses. This income or loss is reported for taxation purposes to the individual shareholders on Schedule K-1 (Form 1120S). The borrower's share of ordinary (net) income or losses from the business has already been addressed in the evaluation of Schedule K-1 (Form 1120S). The analysis of Form 1120S will enable a lender to consider certain adjustments to the ordinary income or losses reported on Schedule K-1. When analyzing Form 1120S, only the borrower's share of income or loss adjustments should be used to calculate income. The borrower's share is based on his or her percentage of stock ownership as reported on the Schedule K-1. The worksheet provides for this calculation.

**Nonrecurring Other (Income) Loss:** Subtract other income or add other losses that are not consistent and recurring.

**Depreciation:** Add depreciation to income.

**Depletion:** Add depletion to income.

**Amortization/Casualty Loss:** Add amortization or casualty loss to income.

**Mortgage or Notes Payable in Less than 1 Year:** These obligations may significantly affect the financial operations of the business. Subtract the amount of mortgage or note obligations payable in less than one year, as reported in Schedule L of Form 1120S, end of year column. If there is evidence that these liabilities regularly rollover and/or there are sufficient liquid business assets to cover them, no deduction is necessary.

**Meals and Entertainment Exclusion:** Subtract the meals and entertainment exclusion reported on Schedule M-1 of Form 1120S from the business income.

**Subtotal:** Add/Subtract all amounts on lines 49 to 54 to determine the amount to be recorded on this line.

**S Corporation Total:** Multiply the subtotal (line 55) by the borrower's percentage of stock ownership, as reported on the Schedule K-1.

### *Corporation – Form 1120*

**Taxable Income:** The analysis of corporate income begins with Taxable Income as reported on the first page of Form 1120. (Note: Corporate earnings may be used to qualify a borrower only when the borrower can document 100% ownership of the business.)

**Total Tax:** Corporations are required to pay taxes on earnings (unlike partnerships and S corporations). To determine the available cash flow from the business, subtract the corporation's tax liability from taxable income.

**Nonrecurring (Gains) Losses:** Determine the likelihood of continuance and stability of capital gains and net gains or losses reported on the first page of Form 1120. Subtract nonrecurring gains from the corporation's income and add nonrecurring losses.

**Nonrecurring Other (Income) Loss:** Subtract nonrecurring other income and add other nonrecurring losses.

**Depreciation:** Add corporate depreciation to income.

**Depletion:** Add corporate depletion to income.

**Amortization/Casualty Loss:** Add corporate amortization or casualty loss to income.

**Net Operating Loss and Special Deductions:** These deductions do not represent actual current expenses or losses. Therefore, add net operating loss and special deductions to the corporation's income.

**Mortgage or Notes Payable in Less than 1 Year:** These obligations may significantly affect the financial operations of the business. Subtract the amount of mortgage or note obligations payable in less than one year, as reported in Schedule L of Form 1120, end of year column. If there is evidence that these liabilities regularly rollover and/or there are sufficient liquid business assets to cover them, no deduction is necessary.

**Meals and Entertainment Exclusion:** Subtract the meals and entertainment exclusion reported on Schedule M-1 of Form 1120 from the business income.

**Subtotal:** Add/Subtract all amounts on lines 57 to 66 to determine the mount to be recorded on this line.

**Subtotal Multiplied by Ownership Percentage:** Multiply the subtotal (line 67) by the borrower's percentage of stock ownership, as reported on the Schedule E (Form 1120) or other independent source.

**Dividends Paid to Borrower:** Distributions (dividends) paid to stockholders are reported on Schedule M-2 of Form 1120. The borrower's share of these distributions will be reported on Schedule B (Form 1040). These funds are also included in the corporation's taxable income and are therefore being double counted. Therefore, subtract distributions paid by the corporation and reported on the borrower's Schedule B (Form 1040).

**Corporation Total:** Line 68 less line 69 equals total corporation income.

**Year-to-date Income Analysis** Year-to-date income from profit and loss statements may only be considered if the income and expenses are consistent with the previous year's performance. Any salaries or draws received by the borrower, as well as any adjustments used when analyzing tax returns, such as nonrecurring income and expenses, depreciation, and depletion, may be added to the business cash flow. Note, however, that these adjustments are limited to the borrower's proportionate share of ownership of the business.

## *CPA Letter*

Lenders may require a CPA letter or otherwise called a Comfort Letter for verification of self-employment is a document issued by the loan applicant's CPA or Tax Preparer who affirms that they prepared the applicant's tax returns and that the applicant is self-employed. The primary purpose of the letter is to independently verify the self-employment status of the loan applicant(s).

The letter should explain the following:

- Confirmation of a client's self-employment status;
- Verification of income from self-employment;
- Verification of a self-employed borrower's business ownership percentage;
- Profitability or sustainability of a self-employed client's business; and
- The impact on a self-employed client's business if money is withdrawn to fund the down payment on a real estate purchase;
- Name and type of business;
- Years in Business;

- And what tax forms are filed each year.

As a result, the lender may be in a better position to recover loan any losses by suing the CPA, alleging that it detrimentally relied on the negligent misrepresentation(s) made in the comfort letter. The comfort letter also may be used to establish the lender's legal standing to sue the CPA where such standing may not otherwise exist.

## *Contents of the Letter*

1. Content: The letter should contain:
    a. Applicant's name
    b. Applicant's business name, address, and phone number
    c. Nature of business
    d. Number of years the applicant has been in this business
    e. Percentage of ownership
    f. Time since when the CPA has prepared the applicant's tax returns
    g. Fact that the applicant reviewed the tax returns prior to their filing by the CPA
2. Signature: The letter should be signed by the CPA.
3. CPA Active License Number Listed (this will be verified by the lender)
4. Letterhead: The letter should be on the CPA's letterhead.

## *Considerations for the Loan Applicant*

The applicants should obtain a copy of the letter and ensure that it contains the elements listed above and any additional information required by the lender. Also, ensure the accuracy of the information in the letter.

## *Considerations for the Lender*

The review of the letter is generally performed by the processing or the underwriting department of the lender. The lender's review of the letter may include the following.

1. Content: The letter contains information listed above and any other information that the lender requires.

2. Independent Verification: Verify the CPA License for the State in which the CPA is licensed.
3. Comparison with Tax Returns: The CPA's information in the letter should be compared to the information in the tax returns that were provided by the loan applicant. Ideally, the CPA's information on the two documents should match.
4. Delivery: The letter should be received directly from the CPA. Do not accept letters forwarded by the broker or the loan applicant(s).

### *Considerations for CPAs and Tax Preparers*

Prior to issuing any letters, tax preparers and CPAs must consider the scope of their relationship with the borrower. Only affirm factual information and do not provide any forward looking statements, projections, or opinions. It is advisable to make it clear in the letter that the CPA is not providing any assurance as to the creditworthiness of the borrower. The lender assumes has to perform its own due diligence and the letter does not create any legal relationship or obligation of the CPA.

Tax Preparers and CPAs are recommended to check their professional code of conduct and standards before issuing such letters.

### *Document Summary*

| | |
|---|---|
| Purpose | The letter is issued by the loan applicant's CPA or Tax Preparer who affirms that he/she prepared the applicant's tax returns and that the applicant is self-employed. |
| Use in Mortgages | The letter is used as a means of independent verification of self-employment. |
| Other Names | CPA Letter |
| Type | Letter |
| Provided By | Loan applicant's CPA |
| Provided To | Lender |
| Notarization Required | No |

| | |
|---|---|
| Signed By | CPA or tax preparer issuing the letter |
| Life Cycle Stage | Origination, as part of underwriting |
| Recordkeeping | The letter must be maintained in the loan file while the loan is outstanding. |
| Model Form | Nome |
| Applicable Laws | None |

## *Tips for a Successful Bank Statement Loan Approval*

Borrowers whose incomes are less documented have a more difficult time qualifying for a traditional home loan. Whether for a primary residence, a second home or an investment property, self-employed borrowers or those who write off 2106 unreimbursed expenses (see below for helpful information) will be the most likely to benefit from the bank statement program. As its name would suggest, the concept is predicated on providing evidence of solvency, specifically in the form of bank statements from the past 12 – 24 months. These can serve as the means for a down payment, in addition to taking the place of a traditional employment history for the years of W-2 forms typically required of buyers during the application process.

The terms of the Qualified Mortgage (QM) rule and other regulatory measures have necessitated that most lenders conduct their due diligence, which often means loan candidates must meet specific, high-barred criteria.

Read more:

http://www.consumerfinance.gov/askcfpb/1789/what-qualified-mortgage.html

## *Bank Statement Program Verification*

Bank statement loans are considered and referred to as EZ doc, low doc, stated or alternative doc income loans. Lenders may allow the use of personal or business bank statements to support a self-employed borrower's income for qualification purposes. The documentation provided needs to document that the income is stable, likely to continue and sufficient to enable the borrower to repay the debt. The income presented must be reasonable for the profession or type of business. In

addition, when using business bank statements to support the borrower's income, the nature and structure of business must be evaluated to determine if the applied expense assumptions are reasonable. The lender may still require additional documentation such as personal and business tax returns, check stubs, W-2s, 1099, payroll registers and VOEs to determine the borrower's qualifying income.

### *Eligible Borrowers*

To be eligible for this program, the borrower must be self-employed or earn over 25% of their income from self-employment, rental income, commission, bonus, or tip sources. Self-employed borrowers are:

- Borrowers who derive 25% or more of their primary income from a business in which they hold a controlling interest
- Borrower who derive their primary income from commissions, consultation fees, interest, capital gains, gratuities, or real estate rents
- Borrowers who rely on investments for income such as interest, dividends, capital gains, or real estate

If one of the borrowers meets this eligibility requirement and the other does not, the borrower that is not eligible must fully document their income. The net deposits used from the bank statements for the self-employed borrower must not reflect the income that is fully documented for the other applicant (i.e. deduct Social Security payments, W-2 wages, etc.).

The borrower's business may be a sole proprietorship, a partnership (general or limited), or a corporation. They may also receive income documented by Form 1099, or filed on a Schedule C.

Borrower must have been in the same line of work or own the same business for two years. Self-employed borrowers must be able to document by a neutral third-party that the business has been in operation for the last two years and that they have had ownership for that period of time. Third-party verification includes:

- A letter from a certified public accountant (CPA) or tax pre-preparerw56w56
- A letter from a regulatory agency or professional organization
- Copy of business license

Borrowers that are employed by the seller, property seller, realtor, or receive foreign income are ineligible.

### *Income Documentation Requirements*

The Borrower's application must include all sources and amounts of income. The bank statements must support income listed on the application. Deposits from income sources that are not reflected on the 1003 or those not needed to qualify will not be included in the qualifying income calculation. Income sources separate from self-employment must be verified. Examples of verification include social security letter, employment verification, or divorce decree. If tax returns are provided for the borrower using bank statements to support their income, the loan must be fully documented.

Income may be documented by either personal or business bank statements. The co-mingling of personal and business or multiple business accounts is not allowed. If multiple accounts are used to show income and reserves, documentation must be provided to show evidence that the funds are separate and distinct.

Given the difficulty tracking and validating that cash flows are not moving between business entities, borrowers that own multiple business entities must use personal bank statements to support their income. Their personal bank statements should demonstrate the distributions they receive from their business interests to satisfy their personal obligations. Also, business bank statements may not be used when the borrower's business has a number of employees, significant overhead or operating expenses. These would suggest that the expense assumption used in this program would not be applicable. This program is designed for the use of business bank statements when the borrower's business is small in scope and has limited expenses.

Non-taxable income, such as child support payments, disability retirement plans, and worker's compensation may be adjusted by 25% to determine the qualifying income. Verification must be

made that the particular source of income is non-taxable and that both the income and its – status are likely to continue.

Bank statements reflecting the occurrence (one time or isolated incident) of NSF checks, wire transfers overdraft protection transfers, negative ending balances and transfers from other accounts must be satisfactorily explained and documented. Bank statements reflecting multiple NSF checks, overdraft protection transfers, negative ending balances, or lack a satisfactory explanation indicate cash flow problems and are not acceptable.

### *Bank Statement Requirements*

Income may be documented by either personal or business bank statements. The co-mingling of personal and business or multiple business accounts is not allowed. If multiple accounts to show income and reserves are used, documentation must be provided to show evidence that the funds are separate and distinct. Borrowers who own multiple business entities must use personal bank statements to support their income. The most recent bank statements must be provided depending on the selected loan program.

### *Ineligible Bank Accounts*

The following outlines the types of bank statements that are ineligible for the bank statement programs.

- Co-mingling of accounts whether personal and business or multiple business accounts is not allowed.
- Bank statements reflecting other individuals who are not applicants for the loan are not qualified.
- Borrowers with multiple businesses may not use business bank statements to support their income. Personal accounts are acceptable.
- Business bank statements may not be used when the borrower's business exhibits a number of employees, overhead, and operating expenses. In this case, personal bank statements may be used.

- Bank statements which exhibit recurring NSF, wire transfers, overdraft protection transfers, and negative ending balances are not allowed.
- A current 12 to 24 month history or the same bank account is required.

Changing of accounts is not acceptable.

## *Eligible Bank Accounts*

The following types of bank statements are eligible for the bank statement programs:

- Personal or business account such as a checking or savings
- Deposits must be consistent and typical whether personal or business accounts are
- Deposits that are larger than typical for the account may be included with a satisfactory explanation. Supporting documentation may be required. Atypical deposits are defined as more than 50% of the gross monthly determined
- If the borrower's spouse is on the personal bank account and not on the Loan, only 50% of the total deposits may be used for qualifying
- Business accounts may only be used when the following applies:
    - Borrower (s) owns 100% of the business.
    - The business must be small in nature and have minimal overhead and operating expenses.
- Low beginning and /or ending balances may require additional documentation up to and including full tax returns (1040's, 1065's 1120's, ).

## *Determining Cash Flow from Bank Statements*

A common sense approach to underwriting a borrower's creditworthiness to determine the willingness and ability to repay the loan. This program provides for income calculation based on bank statements as an alternative method to tax returns to document the self-employed borrower's ability to repay. Each borrower has a different situation and each Loan needs to be weighed on its own merit. If the borrower is self-employed or in a unique business, a narrative must be provided by the borrower that clearly outlines the nature of the business and the cash flows. The expense

assumptions must be reasonable for the type of self-employment. Decreasing income trends must be explained and additional documentation may be required.

Any irregularity in the borrower profile or the documentation provided may be cause for the loan to become ineligible for purchase.

### *Calculating Income from the Bank Statements*

The following outlines how to calculate the income using the borrower's bank statements. The lesser of the income stated on the application or the calculated income using the cash flow from the bank statements will be used to qualify the borrower. The allowances below may be used to establish qualifying income:

- 100% of the deposits from the borrower's personal accounts
- 50% of the deposits from the borrower's business accounts

If the business expenses appear to be greater than 30%, the use of business bank statements to support the borrower's income will not be accepted. Personal bank statements will need to be provided.

Examples of businesses that would typically have expenses that exceed 30% include a construction company, restaurant, or retail firm.

The average deposits will be used to determine the borrower's income for qualification purposes. Deposits must be typical and consistent for the borrower's line of work. Transfers from a borrower's business account to a personal account are acceptable if they are consistent, i.e. the borrower is paying himself regular distributions.

Atypical deposits may not be included unless supporting documentation is provided to show that the monies would be typical for the borrower's type of business or line of work. Credit back from returns and cash advances from credit cards are not acceptable to be included in the qualifying income

## *Verbal Verification of Employment*

For W-2 employees, a verbal verification of employment within 10 days of the Loan closing must be performed.

## *2106 Unreimbursed Employee Expenses*

*** If you personally paid for expenses that were related to your job during the tax year, many of these job-specific expenses may be eligible to be deducted on your return. For you to be able to deduct the expense, it must be a common, helpful, and appropriate expense for your field of work. An expense does not necessarily have to be "required" for it to be deductible. However, if your employer reimbursed you for the expense, it cannot be included in your deduction. Deductible expenses generally fall into one of two categories: job-specific expenses and travel-related expenses.

Examples of job-related expenses are:

- Safety equipment, small tools, and supplies needed for your job.
- Uniforms required by your employer that are not suitable for ordinary wear.
- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
- Physical examinations required by your employer.
- Passport for a business trip.
- Job search expenses in your present occupation.
- Depreciation on a computer your employer requires you to use in your work.
- Dues to professional organizations and chambers of commerce.
- Licenses and regulatory fees.
- Subscriptions to professional journals.
- Occupational taxes.
- Union dues and expenses.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Certain work-related educational expenses. For details, see Pub. 970.

For a complete list, please reference IRS Publication 529.

Examples of travel-related expenses you can include are:

- Cost of getting to and from your business destination (air, rail, bus, car, etc.).
- Meals and lodging while away from home
- Cleaning and laundry expenses
- Meals and entertainment, only if they are directly related to the active conduct of your trade or business. However, the expense only needs to be associated with the active conduct of your trade or business if it directly precedes or follows a substantial and bona fide business-related discussion.
- Vehicle expenses for the business use of your personal vehicle. For more information on this type of expense, click the following link: Click Here

If you did pay any qualifying unreimbursed employee job-specific expenses during the tax year, you can enter these under: Deductions > Itemized Deductions > Unreimbursed Employee Business Expense.

If you did pay any qualifying unreimbursed employee travel-related expenses during the tax year, you can enter these under: Deductions > Itemized Deductions > Job Related Travel Expenses (Form 2106).

# Seller Credit & Closing Costs

Who will cover the closing costs? In many cases, the seller offers a credit to cover the buyer's non-recurring and recurring closing costs. It can be very useful when buyers are short of the cash required to make an offer to buy a home. Sellers are allowed to contribute up to 6% towards the buyer's closing costs. A seller credit is part of the sales contract and should be negotiated by your real estate agent.

Another popular tool for sellers to assist buyers is a seller concession. With a seller concession, the seller will credit the buyer to help with the buyer's closing costs. A seller concession, however, will only work if the appraised value is higher than the sales price.

A seller credit or seller concession is limited by some lenders to a maximum of only 3% of the sales price; this also depends on how much money you are putting down on the new home. Many times when the down payment being made on the home is between zero and five percent, the maximum seller credit allowed is only 3%. There are also certain situations, usually when a large down payment is made, where you may qualify for a much higher maximum allowable seller credit than only 3 or 6 percent as well.

How you and your real estate agent negotiate the seller credit may be determined by if you feel the house is underpriced or overpriced for the market. See the example below:

- Underpriced: If the asking price is $100,000 and the property is worth more, then you would set up the seller credit at a higher amount than the asking price. Your bid would be $106,000 with a 6% or $6,000 seller credit.
- Overpriced: If the asking price is $100,000 and the property is worth that or possibly less, then you would set up the seller credit at the asking price. Your bid would then be $100,000 with the same 6% or $6,000 seller credit.

You could also go anywhere in the middle; for example, a $103,000 bid with a $6000 credit. Your real estate agent will help you determine which route is the best for the specific property and market you are looking at.

In the present housing slump, builders and other sellers are much more likely to make concessions, and give a seller credit toward closing costs than they were just a short time ago. Seller credit can generally be utilized for closing costs or for any other items which are permitted by the lender and the local legal body, and are to be placed on the loan's final settlement statement at closing. Many lenders will cap the amount you can be credited. However, it is often possible to get a huge amount of credit, which will pay for all of your loan costs. Work that in with a 100% financing loan product and you can buy a house for close to free.

Make sure that your purchase offer and contract states, "seller to contribute $XXX,XXX to Buyer's Recurring and Non-Recurring Closing Costs." This will ensure that the money allowance is going toward all of your closing costs and not just a certain portion of your closing costs.

## *Definition of Closing Costs*

There will be third party fees involved in the purchase of a home. The closing costs will be on average 3% of the sales price when the home is priced over $250,000, and a higher percentage applies when the price of a home is less than $250,000.

Impound / Escrow Accounts - Lenders may require that a buyer establish a reserve account held by the lender for future payment of taxes and insurance.
Lawyers / Closing Agents - The individuals who prepare the closing documents and deed charge a fee.
Title Policies - Title companies charge to issue title insurance that protects the borrower and the lender.

## *Non-Recurring Closing Costs*

Fees that are paid once and never again are called non-recurring. These fees are one-time charges for such items as:

- Appraisal
- Appraisal Completion Report (if repairs are needed)/1004D or 442 Report
- Desk or Field Review (if adequate comparable sales are not available on appraisal report)
- Credit Report

- Loan Origination/Loan Discount Processing Fee
- Lender's Inspection Fee
- Lender's Underwriting Fee
- Title Policy
- Escrow/Closing Fees/Sub-Escrow Fee
- Loan Tie-In Fee
- Attorney fees
- Endorsements
- Recording
- State, County or City Transfer Taxes
- Notary
- Wire fees
- Courier / Delivery
- Home Inspection
- Home Protection Plan
- Natural Hazard Disclosure

### *Recurring Closing Costs*

Recurring fees are those charges that you will pay again and again. They include such fees as:

- Fire Insurance Premium
- Flood Insurance (if required in your area)
- Property Taxes
- Mutual or Private Mortgage Insurance Premiums
- Prepaid Interest

### *Prepaid Items*

Items that occurred and are paid in the future such as tax pro-rations, taxes, insurance, mortgage insurance, etc.

# Allowable & Non-Allowable Closing Costs
# (FHA & VA Loans Only)

VA LOANS

**Allowable**

Document Draw Fee (if required for Buyer)
Notary Fee
Title Insurance – ALTA

Credit Report
Appraisal – if ordered in Veteran's Name
Appraisal Completion Reports/1004D or 442
VA Funding Fee
1% Loan Origination Fee
Interest from day of recording

Recording Fee – Maximum $17
Tax proration to day of recording
Hazard Insurance Premium
Home Protection Plan

(If requested by Borrower upfront)

**Non-Allowable**

Base Escrow Fee
Loan Tie-in Fee
Demand/Payoff Statement Fee (Refinance Only)
Sub Escrow Fee (Title Payoff Fee)
Reconveyance Fee (Refinance Only)
Prepayment Penalties (Refinance Only)
Any Lender Document Fee
Processing Fee
Warehouse Fee
Loan Discount Points
Charges by other Lenders
Tax Service Contract
Underwriting Fee
Administration Fee
Photo Inspection Fee
Recording Fee – Balance above $17
Termite Fees or Work Charges
Any Messenger Fee incl. Overnight Delivery
Notary Fees
Homeowners Assn. Transfer Fee
Assignment Fees
Documentary Transfer Tax Fee
Bring-down Fee
Change of Ownership Fee (PCOR Delivery)
Commission
Transaction Coordinator Fee
Title Policy Endorsement Fees
Home Protection Plan

# FHA LOANS

**Allowable**

Base Escrow Fee
Title Insurance ALTA
FHA Appraisal Compliance Inspection Fee
1% Loan Origination Fee
FHA MIP Premium
Loan Discount Points
Credit Report Fee (Actual Cost)
Appraisal Fee (Actual Cost)
Appraisal Completion Reports/1004D or 442
Interim Interest Fee
Hazard or Flood Insurance Premiums
Reserves for Taxes and Insurance
Notary Fee ($10 per signature)
Recording Fees (Actual Cost)
Termite (Initial Inspection. No repairs unless approved in writing by lender)
Home Warranty (if stipulated in escrow instructions and with prior approval of lender)
Amortization Schedule Fee
Real Estate Commission (if prior approval in writing by lender)
Broker Fees (if prior approval in writing by lender)
Tests or treatments required by HUD (if prior approval in writing by lender)
Compliance Inspection Fee

**Non-Allowable**

Sub-Escrow Fee or Title Company
ALTA Endorsement Fees
Other Inspection Fees are not allowed
Recording Assignment Fee
Processing Fees
Document Preparation Fees
Tax Service Contract
Any Messenger Fee incl. Overnight Delivery
Loan Tie-In Fee
Bring-down Fee
Title Binder
Tax Stamps/City Transfer Tax Charges
Homeowner's Assn. Transfer Fee
Repairs or work required on FHA Appraisal (unless approved in writing by lender)
Photo Fee/Photo Inspection Fee
Reconveyance Fee
Preliminary Change of Ownership Report
Commission
Transaction Coordinator Fee

# Your Down Payment

The down payment required for your new home can vary depending on what kind of loan you are applying for. If you have saved up enough for your down payment, be sure to have it in the bank for two months or longer to show the funds are 'seasoned'. It is a good idea to also save enough for at least two additional months of mortgage payments, just in the case of an emergency.

If you find that you don't have enough saved for a down payment, you still have options. These options include down payment assistance programs, receiving gifted funds from family or your employer, or co-buying a home with someone you know and trust.

## *Down Payment Assistance Programs*

If you are a first time homeowner, or have not owned a home for three or more years, you may qualify for down payment assistance. Consider making an appointment with a HUD-approved housing counselor. First-time home buyers can use these services for little or no cost. Speak with your loan officer first to get pre-approved first. Another First Time Home

Buyer's course online through http://ehomeamerica.org . The cost is $50. At the end of the course, you can print out the Course Certificate, which may be used for a First Time Home Buyers Down Payment Assistance loan program, if you qualify for the income and county mortgage limits.

## *Gifted Funds*

FHA - If the gift funds are in the borrower's account, then we must obtain:

- A copy of the withdrawal document showing that the withdrawal was from the donor's account, and
- The borrower's deposit slip and borrower's bank statement showing the deposits

We MUST be able to determine that the gift funds were not provided by an unacceptable source and were the donor's own funds.

To meet the first bullet point, an acceptable procedure is obtaining a copy of a cancelled personal check. If the gift funds are in the form of a cashier's check or the like, we must be sure to provide evidence that the funds used to purchase the cashier's check came from the donor. A withdrawal slip (specifically showing the donor's account number/donor's name from which the funds were obtained) would be sufficient evidence, along with a copy of the cashier's check.

If a donor bank statement is received, please be sure to look for red flags regarding the gift. For example, if there is a deposit for $5,000 in a close time period to the gift withdrawal of $5,000, the source of this deposit should be questioned to ensure it complies with the FHA gift rule that the gift funds are not derived in any manner from a party to the sales transaction.

*Conventional* - A borrower of a loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or

part of the down payment, closing costs, or reserves, subject to the minimum borrower contribution. Keep in mind that gift funds are not allowed on an investment property.

We must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, we must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

### *Reserves*

Some lenders or programs may require you to have liquid assets to be used as a reserve requirement, such as checking, savings, CDs, Money Market accounts, and 401k funds; in case you are not able to make the payment. Deferred Comp plans are not acceptable since they cannot be withdrawn from until retired. Normally the lender will also require you to have 6 months of reserves (total housing payment, which includes principal, interest, taxes, insurance and homeowner's association dues; also referred to as PITIA) for all rentals owned. In some cases reserves can also be in the form as a gift from immediate family.

### *Mortgage Credit Certificates*

A great way to get qualified to buy a larger home due to high debt to income ratios is to request a Mortgage Credit Certificates (MCC). MCC is a certificate issued by certain state or local governments that allows a taxpayer to claim a tax credit for some portion of the

mortgage interest paid during a given tax year. The MCC program is designed to help first-time home buyers offset a portion of their mortgage interest on a new mortgage as a way to help home buyers qualify for a loan. Because it is a tax credit and not a tax deduction, mortgage lenders will often use the estimated amount of the credit on a monthly basis as additional income to help the potential borrower qualify for the loan.

*MCC minimum guidelines:*

1. Buyers must not have owned a home in the previous three years.
2. Buyers must meet income and purchase price restrictions.
3. Buyers must intend to use the new home as a primary residence.

The MCC Credit can be used with Conventional/Conforming, FHA, USDA and VA home loans. These credits can help a homebuyer qualify for a little "bigger" (more expensive) home. While all homeowners can claim an itemized tax deduction for mortgage interest, you can go a step further with an MCC. An MCC reduces your tax liability, dollar-for-dollar, by a percentage of the mortgage interest you pay.

The amount of mortgage credit allowed varies depending on the state or local government that issues the certificates, but is capped at a maximum of $2,000 per year if your State's rate is over 20%, by the IRS. As an example, if a homebuyer were to receive an MCC that offers a 30% credit on a $200,000 loan for 30 years with a rate of 6%, the allowable tax credit would be figured as follows (all numbers rounded):

Mortgage Interest Paid (1st Year): $11,933

x MCC Credit: 30%

= Total Credit: $3,579

Since the total credit in this example exceeds the IRS limit of $2,000, the home buyer would report a $2,000 credit on their tax return. The buyer may continue to receive a tax credit as long as they live in the home and retain the mortgage.

## Home Buyers Checklist

| STEP 1: | What Kind of Home Do You Want |
|---|---|
| ❑ | Choose the Neighborhood(s) Where You Would to Live |
| ❑ | Consider Which Home Features are Important to You (Size, How Many Bedrooms/Bathrooms, Style of Home, etc.) |
| **STEP 2:** | **How Much Can You Afford** |
| ❑ | Calculate How Much Money You Will Have For The Down Payment |
| ❑ | Calculate How Much Your Closing Costs Will Be (Ask your realtor |
| ❑ | Calculate How Much of Mortgage Payment You Can Afford |
| ❑ | Calculate the Other Monthly Costs (HOA, PMI, Utilities, Maintenance/Repairs, Property insurance, Taxes, etc.) |
| **STEP 3:** | **Get The Right Help** |
| ❑ | Find the Right Lender and Get Pre-Approved for a Mortgage |
| ❑ | Find an Experienced Realtor to Help You Find the Right Home |
| ❑ | Consider Hiring a Lawyer to Oversee Your Legal Interests |
| ❑ | Order a Home and Termite Inspection |
| ❑ | Shop Around for the Best Homeowners Insurance |

# Home Purchase Estimate

| Cost of the Home | |
|---|---|
| Purchase price | $ |
| **Up-Front Costs** | |
| Appraisal/Desk Review/Field Review/442 fee (if applicable) | $ |
| Home warranty | $ |
| Deposit/Down payment | $ |
| HOA Certificate (for condominium/PUDs) | $ |
| Home inspection fee | $ |
| Pest inspection fee | $ |
| Legal fees and disbursements | $ |
| Mortgage broker's fee (if applicable) | $ |
| Mortgage loan insurance premium (can be included in your mortgage) | $ |
| Adjustment for prepaid property taxes and/or utility bills | $ |
| Property insurance | $ |
| Survey or Property Disclosures | $ |
| Title insurance | $ |
| Other up-front costs | $ |
| **Total Up-Front Costs** | $ |
| **Miscellaneous Costs** | |
| New appliances/Furniture | $ |
| Yard Tool/Equipment/Maintenance | $ |
| Window coverings (curtains, blinds, etc.) | $ |
| Moving expenses | $ |
| Renovations or repairs | $ |
| Homeowners Association Dues | $ |
| **Total Miscellaneous Costs** | $ |
| **Total Costs (Home + Up-Front Costs + Misc. Costs):** | **$** |

# The House Hunt

The house hunt begins! Now that it is time to start looking for homes, you should consider whether you should find a real estate agent for help and what kind you need. Yes, there are different types!

## *Finding an Agent*

First-time buyers should have professional help in searching for a home. The real estate world has changed dramatically over the last few years. Home prices have declined in most parts of the country, and many of the mortgage rules have changed as well. An experienced agent can help you navigate the process from start to finish. Again, make sure you get pre-approved for a mortgage loan before you try to find an agent. Real estate agents are hesitant to work with first-time buyers who have not been pre-approved by a lender yet. That doesn't mean they won't *talk* to you; it just means they probably won't spend a lot of time helping you.

It may be in your best interest to find an agent that specializes in helping first-time home buyers. Some agents prefer to work with sellers only, because it is less work for them. The buyer's agent typically does a lot more legwork. They have to drive their clients around, look at lots of different houses, write up the offer, etc. You want to find an agent who is not only *willing* to help first-time buyers, but one who *specializes* in it. You will also want an agent that focuses on your target area, meaning the particular neighborhoods or districts you are interested in buying in. This will take some of the research burden off of you. The agent will be very familiar with local schools, neighborhoods and other factors that are important to you. You should make a list of these factors beforehand (see 'Housing Needs'). The agent will also be better equipped to locate a neighborhood or subdivision that matches your lifestyle. Some agents will list their areas of focus on their websites. Another consideration is whether you should use an exclusive buyer agent (EBA). This is a real estate agent who works with home buyers exclusively. In some cases, an agent might work with sellers and buyers at the same time. This can create a conflict of interest. When using an EBA, you know that the

agent truly has your best interests at heart. You can find an exclusive buyer agent in your area by visiting their organization's website.

There is abundance of information available on the internet these days. More and more businesses and professionals are sharing their knowledge with readers and potential customers. Find an agent that publishes a real estate blog for two main reasons. First, you can get a feel for the agent's knowledge and expertise. Second, you will also be able to research the local housing market. Many agents offer first-time homebuyer tips and advice from their blogs as well. This information will likely be tailored to your local housing market. It also shows you that the agent is savvy and up to speed on current developments.

Another great way to find an agent is to get referrals from family, friends or coworkers. The obvious benefit is that the recommendation comes from someone you know and trust. Do you use Facebook? If so, you can post a note about your home-buying plans. You will be surprised at how many people want to help you. If the recommended agent specializes in your target area, you may have hit the jackpot.

## *Finding the Perfect Home…or Three*

Now that you've found an agent, you are ready to start looking at houses, which is the most exciting part of the process for most home buyers.

Before you start looking at homes, get a feel for property values in your area of choice. You can do this by looking at recent sales data online; your real estate agent should help you with this. It is important to have some familiarity with home prices in the area so you can spot a good value versus an overpriced home.

## *Housing Needs*

Make a list of your housing needs. This is a critical item for the first-time homebuyer. Add this list to your housing file, which should include the other paperwork we've discussed in this article. This list is particularly useful because you can simply give a copy to your real

estate agent when it is time to start the search. Your housing needs should include your desired location, the size of the house, the types of features you need, etc.

If you are going to be driving to and from work every day, you need to consider the commute time. This is especially important when you start to zero in on a particular house. Before you make an offer on a home, you might want to commute to work from the house during rush hour. It is an easy drive at 1:00 PM, but what about 7:30 AM? This is a serious quality of life issue that should not be dismissed. It is common for first-time home buyers to overlook such factors when they find the "house of their dreams." It won't be your dream house for long if it takes away from your quality of life.

Consider the quality and desirability of schools in the area. This is important even if you don't have children. Schools go hand-in-hand with property values. Your home is more likely to appreciate in value if it is located within a desirable school district and the opposite is true as well. This factor is even more important for first-time buyers who have school-aged children. Your real estate agent should be able to help in this area, but don't rely exclusively on your agent. Use the web to research schools in your desired location.

While viewing potential homes, it is important to be flexible and open-minded. Don't expect a single home to check all the boxes for you. Most first-time home buyers have to make a compromise of some kind. It is rare to find a house that meets every single item on your wish list. It is okay to be modest on your first home and go with a great deal on a condo, townhome or fixer-upper. Making your home a rental and upgrading later is always an option. You should also expand your horizons in terms of price, location, and the features of the house. There is a very good chance you will have to compromise on one of these factors as well. For example, you may find a house that meets all of your needs and falls within your budget, but it is a few miles outside of your desired area. Or maybe it is a little above your budget. You will have more homes to choose from if you expand your horizons.

First-time home buyers often have a hard time looking past the decor of a house. You should not be concerned about the curtains, the carpet, or the color of paint on the wall. These things

can easily be changed, and often for very little cost. You should be more concerned with things that are difficult or impossible to change–the size of the house, the location, the number of bedrooms and bathrooms. Don't be turned off by the stylistic choices of the current homeowners. Open your mind to the possibilities.

### *Searching Online*

First-time home buyers should use multiple tools when searching for houses. Don't just rely on your real estate agent to provide you with a list of homes for sale. Be proactive about searching online to find suitable homes. I recommend that you use three websites simultaneously: Realtor.com, Zillow.com and Trulia.com. Your agent will also be looking for homes on the Multiple Listing Service, or MLS. While searching online, don't make a yes-or-no decision solely by what you find in the summary, unless the home is completely outside of your parameters. If it meets most of your requirements, it is worth visiting in person and scratching below the surface. You may be surprised to find that the home has additional features that were not included on the online listing.

### *Bank-Owned Homes/REOs*

Bank-Owned Homes are foreclosed properties, also known as Real Estate Owned (REO) is a home that was once customer-owned, but has been turned back to the mortgage holder as the result of a foreclosure action or acceptance of a deed-in-lieu of foreclosure.

A foreclosure can occur when mortgage payments are not made over a period of time and efforts to resolve the default are unsuccessful. While the bank makes every effort to help their customers remain in their homes, sometimes foreclosure becomes the only option. Many of these properties are in poor condition and the banks assign a REO Asset Management representatives to maintain the property the best they can, but keep in mind these are usually sold as is. Many first-time home buyers shy away from bank-owned foreclosures, but there is a potential for savings that should not be ignored. These homes are often sold for less than their true market value. Normally, you can view REOs on the banks

websites or ask your real estate agent to send you the listings by email. The Asset Management representative usually waits for the best offer. It is harder to get an accepted offer, but well worth it if you give it a shot and win.

## *Offers*

What does a first-time homebuyer need to know about making an offer? First of all, you should realize that home prices are lower than they were a few years ago — at least, in most parts of the country. So, you will have to give some extra scrutiny to the seller's asking price.

Before you make an offer, you should have a good feel for what homes are selling for in the area. This information is readily available online. Just visit some sites such as Zillow.com and Trulia.com and look at homes that have recently sold in the area. You can also see the recent sale prices for the homes you're interested in, if any. If you do enough of this research, you will be able to tell the difference between a reasonably priced home and one that is overpriced.

First-time home buyers must realize that homeowners frequently overprice their homes. They might do this for a variety of reasons. Some homeowners set their asking price based on the amount they still owe on the mortgage, but these two numbers have nothing to do with one another. Remember, it is called an "asking price" for a reason. You need to compare it to other homes that have sold recently in the same area. Is it priced comparably–or is it overpriced?

## *Making an Offer*

Submit a letter of justification with your offer. Show the seller the data you are using to justify your offer amount. A good real estate agent will handle this for you. It is rarely a good idea to submit an offer without supporting data. Otherwise it leaves the seller to believe that you pulled the number out of thin air. You want the seller to know that your offer is based on current market data. They will be more inclined to accept your offer if you back it up with such data.

When you make an offer, you should be prepared for three possible responses. The seller will either accept your offer as is, make a counter offer of some kind, or reject it outright. It is highly recommended that you have a plan for each of these scenarios. You should also know the maximum amount you are willing to pay for a house, *before* you submit an offer. That way, if the seller comes back with a counter offer for a higher amount, you will be prepared for it. This relates back to the fair market value of the house. If the seller makes a counter offer that is still within reason, you should consider accepting. If they refuse to budge on a price that is clearly set too high, you should be prepared to walk way.

Some sellers may be more willing to make concessions (such as loan processing fees, attorney's fees, transfer taxes, title insurance costs, inspection fees, and more), rather than reducing the sale price. Talk to your agent about these types of scenarios before you make an offer. Be open-minded about it. For example, a homeowner may be willing to make a contribution to your closing costs from the proceeds of the sale or they might be willing to throw in some furniture, in lieu of a price reduction.

## *You've Got Options*

Never go with the first offer; it is best to get at least three offers and narrow it down. This limits your ability to spot the best deal. How do you know if you're getting the best terms if you only have one offer? Make sure to compare the APR listed on the Truth-In-Lending disclosures. Compare the 'total payments made' figure on the top right section of the disclosure. Fast talking loan officers will pitch you the rate and not disclose upfront all of their other junk fees, so take the time to consider all of your options and weigh the pros and cons. Having more options is best so you don't ever have to feel like you're settling on your new home.

## *Trust Your Own Instincts*

As a first-time homebuyer, it can be tempting to follow your agent's advice blindly. However, you should not rely on your agent too heavily when making important decisions. Your agent is your advisor and not your decision maker. These are *your* finances that are on the line, and it is *your* potential home. Research the market and use the data to validate the asking price. Trust your own instincts.

## *Banks*

When shopping for the best mortgage deal, consider using a mortgage broker who can find you the best wholesale rate. If you decide to use a retail entity, consider smaller banks, local lenders and credit unions. Don't limit yourself to the "BIG NAME" mortgage lenders, such as Bank of America, Wells Fargo and Chase (JP Morgan). Many first-time home buyers have experienced being turned down by a major lender, due to strict guidelines, but are later approved by a smaller bank - don't limit yourself to the larger lenders. Many banks also wrap their fees into the rate and tend to be .25% or higher than a wholesale lender. For example, on a $200,000 loan amount at .25% could be a savings of $7,596 over the life of the mortgage.

# Importance of a Home Inspection

A home is one of the most important purchases one will ever make. A home inspection is an inexpensive way to discover the universal condition of a home. It is important to conduct a home inspection to avoid a costly mistake by purchasing a property in need of major repairs. A home inspection is an objective visual examination of the physical structure and systems of a house, from the roof to the foundation. The report will cover the home's heating system; central air conditioning system (temperature permitting); interior plumbing and electrical systems; the roof, attic and visible insulation; walls, ceilings, floors, windows and doors; the foundation, basement and structural components.

Make sure that you chose a state licensed home inspector. You can search for a certified inspector through The American Society of Home Inspectors (ASHI) site www.ashi.org. ASHI's inspectors abide by their Standards of Practice and Code of Ethics, which outlines what you should expect to be covered in your home inspection report.

Many home buyers try to cut expenses and this is one that should not be omitted. The fee can range from $300-$500.

You can find out more helpful information about home inspections on the HUD website. They also have a list of HUD approved inspectors.

# Home Inspection Checklist

## *Grounds*

- ☐ Proper grading drainage away from house
- ☐ No evidence of standing water
- ☐ No septic tank leaks or drain fields
- ☐ Landscaping, trees, yard and walkways in good condition
- ☐ No branches or bushes touching house or overhanging the roof
- ☐ Exterior structures (detached garages, fences, sheds, decks, retaining walls) in good condition, no evidence of termite damage or rotted wood
- ☐ Railings on decks and stairs are adequate and secure
- ☐ Driveways, sidewalks, patios, entrance landings in good condition, and pitched away from structure
- ☐ Drainage directed away from structure

## *Structure*

- ☐ Ridge and board lines appear straight and level
- ☐ Sides of house appear straight, not bowed or sagging
- ☐ Window and doorframes appear square (especially bowed windows)
- ☐ Visible foundation in good condition – appears straight, plump, with no cracks Exterior Surfaces
- ☐ Adequate clearance between ground and wood siding materials (6" minimum); no wood- to-earth contact
- ☐ Siding: no cracking, curling, loose, rot or decay
- ☐ Masonry veneers: no cracks in joints, no broken, or flaking components
- ☐ Stucco: no large cracks (discuss all stucco cracks with a professional inspector
- ☐ Vinyl or aluminum siding: no dents, damage, no bowing or loose siding
- ☐ No vines on surface of structure
- ☐ Exterior paint or stain: no flaking or blisters
- ☐ No stains on exterior surfaces Windows, Doors and Wood Trim
- ☐ Wood frames and trim pieces are secure, no cracks, rot or decay
- ☐ Joints around frames are caulked
- ☐ No broken glass (window or storm panes) or damaged screens, no broken double-paned, insulated window seals.
- ☐ Glazing compound in good condition
- ☐ Storm windows or thermal glass used D Drip caps installed over windows

## *Roof*

- ☐ Composition shingles: no curling, no cupping, no loss of granulation particulate, no broken, damaged or missing shingles, no more than two layers of roofing
- ☐ Wood shingles or shakes: no mold, rot or decay, no

cracked/broken/missing shingles, no curling

- Flat roofs: no obvious patches, no cracks or splits, minimal blisters and wrinkles, no silt deposits (indicates improper drainage), sealed tar at flashings
- Flashing around roof penetrations
- No evidence of excess roofing cement/tar/caulk
- Soffits and fascia: no decay, no stains
- Exterior venting for eave areas: vents are clean and not painted over
- Gutters: no decay or rust, joints sealed, attached securely to structure, no bending or sagging, no sections of gutter or downspout missing, gutters clean, no mud deposits
- Chimneys: straight, properly flashed, no evidence of damaged bricks or cracked joints, mortar/cement cap in good condition

## *Attic*

- No stains on underside of roofing, especially around roof penetrations
- No evidence of decay or damage to structure
- Sufficient insulation and properly installed insulation (moisture barrier installed closest to the heated area of the house)
- Adequate ventilation, clear path into attic for air entering through soffit vents, adequately sized gable end louvers, all mechanical ventilation operational
- No plumbing, exhaust or appliance vents terminating in attic
- No open electrical splices Interior Rooms
- Floors, walls and ceilings appear straight and plumb and level
- No stains on floors, walls or ceilings
- Flooring materials in good condition
- No significant cracks in walls or ceilings
- Windows and exterior doors operate easily and latch properly, no broken glass, no sashes painted shut, no decay; windows and doors have weather-stripping, "weep holes" installed
- Interior doors operate easily and latch properly, no damage or decay, no broken hardware
- Paint, wall covering, and paneling in good condition
- Wood trim installed well and in good condition
- Lights and switches operate properly
- Adequate number of three pronged electrical outlets in each room
- Electrical outlets test properly (spot check)
- Heating/cooling source in each habitable room
- Evidence of adequate insulation in walls
- Fireplace: no cracking. damaged masonry, evidence of back-drafting (staining on fireplace façade), damper operates properly, flue has been cleaned, flue is lined

## *Kitchen*

- ☐ Working exhaust fan that is vented to the exterior of the building
- ☐ Ground Fault Circuit Interrupter ("GFCI") protection for electrical outlets within 6 feet of the sink(s)
- ☐ Dishwasher: drains properly, no leaks, baskets, door spring operates properly
- ☐ No leaks in pipes under sinks
- ☐ Floor in cabinet under sink solid, no stains or decay
- ☐ Water flow in sink adequate
- ☐ No excessive rust or deterioration on garbage disposal or waste pipes
- ☐ Built-in appliances operate properly
- ☐ Cabinets in good condition: doors and drawers operate properly Bathrooms
- ☐ Working exhaust fan that doesn't terminate in the attic space
- ☐ Adequate flow and pressure at all fixtures
- ☐ Sink, tub and shower drain properly
- ☐ Plumbing and cabinet floor under sink in good condition
- ☐ If sink is metal, it shows no signs of rust, overflow drain doesn't leak
- ☐ Toilet operates properly
- ☐ Toilet stable, no rocking, no stains around base
- ☐ Caulking in good condition inside and outside of the tub and shower area
- ☐ Tub or shower tiles secure, wall surface solid
- ☐ No stains or evidence of past leaking around base of bath or shower

## *Miscellaneous*

- ☐ Smoke and carbon monoxide detectors where required by local ordinances
- ☐ Stairway treads and risers solid
- ☐ Stair handrails where needed and in good condition
- ☐ Automatic garage door opener operates properly, stops properly for obstacles Basement or Mechanical Room
- ☐ No evidence of moisture
- ☐ Exposed foundation; no stains no major cracks, no flaking, no efflorescence
- ☐ Visible structural wood: no sagging, no damage, no decay, no stains, no damage from insects, sills attached to foundation with anchor bolts
- ☐ Insulation at rim/band joists
  - Crawl Space
  - Adequately vented to exterior
  - Insulation on exposed water supply, waste and vent pipes
  - Insulation between crawl space and heated areas, installed with vapor barrier towards heated area
  - No evidence of insect damage
  - No evidence of moisture

## *Damage Plumbing*

- ☐ Visible pipes: no damage, no evidence of leaks, no signs of stains on materials near pipes; drain pipes slope slightly down towards outlet to septic/sewage system
- ☐ Water heater: no signs of rust, vented properly, sized to produce adequate quantities of hot water for the number of bedrooms in the house.
- ☐ Water pump: does not short cycle
- ☐ Galvanized pipes do not restrict water flow
- ☐ Well water test is acceptable
- ☐ Hot water temperature between 118 - 125 degrees Fahrenheit

## *Electrical*

- ☐ Visible wiring: in good condition, no "knob-and-tube" wiring, no exposed splices, cables secured and protected
- ☐ Service panel: adequate capacity, all cables attached to panel with cable connectors; fuses or breakers are not overheating
- ☐ No aluminum cable for Branch

## *Circuits/Heating/Cooling System*

- ☐ Appears to operate well throughout (good air flow on forced hot air systems)
- ☐ Flues: no open seams, slopes up to chimney connection
- ☐ No rust around cooling unit
- ☐ No combustion gas odor
- ☐ Air filter(s) clean
- ☐ Ductwork in good condition
- ☐ No asbestos on heating pipes, water pipes or air ducts
- ☐ Separate flues for gas/oil/propane and wood/coal

# Property Insurance

There are several types of homeowner's insurance. Lender's will require insurance be carried for the home.

- **Dwelling Policy** provides property coverage only (protection for individuals and families against loss to a dwelling or personal belongings). Dwelling policies may be used to insure homes that do not qualify for homeowner's insurance. For example, they are commonly used to insure seasonal homes that are unoccupied for portions of the year. To qualify for dwelling insurance, a building does not have to be occupied by the owner, and it may even be under construction.
- **HO-1 Policy** Coverage is limited and resembles a dwelling policy.
  - **Broad Form (HO-2)** covers only those **perils** as itemized in your policy. A peril is the cause of a possible loss; a covered peril is a peril for which the policy provides coverage (fire/lightning, windstorm/hail, theft, glass breakage and smoke
  - **Special Form (HO-3)** provides comprehensive coverage for "all risks" *except* for certain specified perils, such as earthquake or flood. It is the most popular policy sold today.
- **Condominiums – Unit Owner (HO-6)** offers protection of two separate insurance policies 1) one purchased by the condominium association and 2) you purchase yourself. The association master policy covers the building, including any common walls and grounds, and includes personal liability protection associated with common properties. You have the right to examine the association policy. To protect the contents and the interior walls of your unit, you may purchase a unit-owner form (HO-6). An individual unit-owner policy is similar to the renter's insurance policy. The HO-6 provides coverage for a condo owner who wishes to insure his property or to cover any items not covered by the association's policy, such as personal property, wall, floor and ceiling coverings and any accessories not originally installed in the unit. It also provides personal liability protection. The condominium HO-6 policy also provides loss assessment coverage, which will pay the unit-owner's share of any assessment charged to all unit owners by the condominium association when the

assessment is a direct result of a physical loss or damage to the common property which is not covered by the association's insurance policy. The standard unit owner's policy automatically provides a limit of $1,000 for each assessment relating to the residence's premises; however, higher limits of coverage may be purchased. It should be noted that major assessments for large complexes can be as much as $50,000 per unit owner; therefore unit owners may wish to consider a higher coverage option.

- **Rent Guarantee Insurance** protects a landlord when a tenant doesn't pay his rent. Rent loss insurance is recommended when you can't afford to lose your rental property or money made from it.
- **Rent Loss Insurance** protects when a home that is rented out to others has been damaged by a covered cause of loss. Coverage is also provided for the fair rental value of the portion of the premises occupied by the insured.
- **Flood Insurance** protects when a home is damaged from flooding. About 20% of US homes are at risk of flood damage. If the homes are listed on FEMA's flood watch list the home is required to have flood insurance by lenders if there is a mortgage being issued on the home.
- **Earthquake Insurance** protects a home when there is earthquake damage. Typically a earthquake policy carries a high deductible and can be expensive.

# Getting Approved

After you make an offer on a home, you will go back to your lender for final approval. This is when your file gets sent to the underwriter, the person who has the final say as to whether or not you will be approved.

## *Loan Approval*

Many first-time home buyers fail to understand the difference between pre-approval and final approval. Believe it or not, you can still be turned down for a loan even though the lender has already pre-approved you. Pre-approval is not a guarantee or a commitment to lend. The deal isn't done until the mortgage underwriter gives his seal of approval.

You may be given a list of conditions to satisfy before the lender will issue a final approval. For instance, they may ask for additional documents relating to your finances. This is the most common type of condition. In some cases, they might even require you to reduce a certain debt obligation prior to final approval. Just be prepared for these conditions; it is a very common scenario.

Be sure to keep tabs on your mortgage package as it goes through the underwriting stage. The underwriting process is the last and largest obstacle to final approval. Keep in touch with your loan officer about the status of your application and make sure the underwriter has everything he or she needs to move the process forward.

## *Financial Changes*

It is very important that you keep your financial situation stable between pre-approval and closing. Many first-time buyers think that they are "home free" when they reach this stage in the process, but that's simply not the case. If you go out and buy a new car while your loan is still being processed, you could throw off your debt-to-income ratio. It might even result in your loan being rejected. Try to spend as little money as possible during this process.

At this point, the only *good* change to your financial situation would be an increase of assets. For example, if you made a contribution to your savings account, it would probably support your cause. The worst thing you could do at this stage would be to decrease your assets in some way. So keep your hands off your savings account until the loan is approved.

If anything changes with your financial situation, let your loan officer know about it. Remember, he or she is on your side at this point. The loan officer wants the deal to go through almost as much as you do. This is how they make a living, so you should keep them informed of your financial situation.

## *Be Prepared*

Have a backup plan in case the deal falls through. It is common for mortgage loans to fall apart during the underwriting stage, especially in the current economy. Lenders are a lot stricter today than they were before the housing crisis. It is not a pleasant scenario to think about, but you still need to have a plan in place. What will you do if your mortgage gets denied? How will it affect your current living arrangements?

## *What is a mortgage escrow account?*

A mortgage escrow account is an amount of money maintained at a lending institution in order to pay the annual taxes and insurance on mortgaged property. Approximately one-twelfth of the estimated annual cost of taxes and insurance is paid into the account each month from the borrower's monthly mortgage payment. Then the lending institution pays the taxes and insurance from this account when they are due. An escrow account is required by many lending institutions in order to ensure that the taxes and insurance premiums are paid on time.

It is, in a sense, a budgeting device, which requires borrowers to set aside enough money to pay the taxes on time. If there is not enough money in the customer's escrow account at the time of tax payment, sometimes lenders will advance the funds at no charge, and allow the customer to pay back the advance through higher escrow payments.

Escrow accounts also reduce tax collection costs for local governments. The lending institution usually makes one large tax payment to each tax collector, which saves the government the cost of collecting many small checks from individual borrowers over a period of time.

## *Do I have a choice about whether to maintain an escrow account?*

The lender usually decides whether you must maintain an escrow account, but sometimes government regulations leave the lender no choice. The Federal Housing Administration (FHA), for example, requires that lenders making FHA insured loans establish escrow accounts on those loans. The Veterans Administration (VA) does not require that escrow accounts be maintained on all VA-guaranteed home mortgages, but most lenders do.

Mortgage loans other than FHA and VA loans are generally known as conventional mortgages. Conventional mortgage loans are made by mortgage companies, banks, savings banks, and some credit unions and are of two types – prime and sub-prime mortgages. For each type of conventional mortgage loan, the lender decides whether to require an escrow account. Most conventional loan contracts contain escrow clauses, especially those with very low down payments. The lender may also take into consideration the customer's previous payment record. Even if a lender does not require it, some borrowers may prefer to maintain escrow accounts because they view escrows as convenient budgeting devices.

## *Do lenders pay interest on escrow accounts?*

Most lending institutions do not pay interest on the money in an escrow account. Many borrowers feel that they are entitled to share the interest that the lender earns by investing these tax and homeowner's insurance funds. If an escrow account were not required, a borrower could deposit tax and insurance money in an interest-bearing account until a payment was due.

There is one method of escrow collection in which the portion of the borrower's monthly payment required to pay taxes and insurance is deducted each month from the balance owed on the mortgage. Then, when the institution makes a tax or insurance payment for the customer, the amount of the payment is added back to the principal balance. Since this reduces the amount of loan interest that a customer pays, it amounts to earning interest on escrow balances at the same rate of interest as on the mortgage loan. This method is sometimes called escrow capitalization and, although beneficial to consumers, it is seldom used by lending institutions today because of its high cost.

### *What happens when the lender doesn't pay taxes on time?*

A lending institution must pay the taxes in full if the escrow account balance is enough to cover the payment due. If there is enough money in the account and the lender fails to pay the taxes when due, it is liable to the customer for all penalties or fees incurred because of the failure to pay. Borrowers generally can tell whether taxes have been paid on time because lenders are required to send escrow account statements listing deposits and disbursements. An institution must send these statements at least once a year, but may instead choose to include information about the escrow account balance in the monthly billing statement.

### *What happens as taxes increase or new taxes are assessed?*

When taxes increase, an escrow account may run short unless the money payment is adjusted. When the tax increase is large, which might occur with a millage (thousands) increase, a special assessment for street improvements, or a new home assessment, a borrower may not be able to meet the added expense right away. Lending institutions generally recognize this and usually notify the borrower of the date and the amount of the increase. The borrower then has the option of paying the increase all at once or paying it in installments after the next payment adjustment date.

*Are there limits on how lenders handle escrow accounts?*

Federal law allows institutions that include escrow provisions in their mortgage contracts to collect the amount needed to pay for taxes and insurance plus one-sixth over that amount. This is important because many lending institutions do not require the excess deposits, while others require varying amounts up to the limit. The main purpose for this practice is to prevent a deficiency from occurring in an escrow account as taxes and insurance rise from year to year. The larger collection also helps to insure that the institution will be able to make each tax payment when it is due in the event that a borrower is unable to make a monthly payment on time. Escrow payments are accounted for using a process called the "zero balance" method, meaning at some point during the year, the balance in the escrow should approach zero. In the following example, the monthly escrow payment of $66.67 is calculated by adding all the tax and insurance payments for the year together to total $800, and dividing by twelve.

**Zero Balance Method**

| Date | Description | Borrower's Monthly Escrow Pmt | Lender's Disbursements | Total Escrow Balance |
|---|---|---|---|---|
| 12-31-99 | Year-End | | | 33.35 |
| 1-1-00 | Escrow | 66.67 | | 100.0 |
| 2-1-00 | | 66.67 | | 166.6 |
| 3-1-00 | | 66.67 | | 233.3 |
| 3-1-00 | Insurance | | $200.00 | 33.36 |
| 4-1-00 | | 66.67 | | 100.0 |
| 5-1-00 | | 66.67 | | 166.7 |
| 6-1-00 | | 66.67 | | 233.3 |
| 7-1-00 | | 66.67 | | 300.0 |
| 7-1-00 | School Tax | | $300.00 | 0.04 |
| 8-1-00 | | 66.67 | | 66.71 |
| 9-1-00 | | 66.67 | | 133.3 |
| 10-1-00 | | 66.67 | | 200.0 |
| 11-1-00 | | 66.67 | | 266.7 |
| 12-1-00 | | 66.67 | | 333.3 |
| 12-1-00 | Winter Tax | | $300.0 | 33.39 |

Average Monthly Escrow Balance: $125.04

Total of Monthly Payments: $800.04 Total Taxes & Insurance Paid: $800.00

# Moving Checklist

There are so many things to think about when moving! Here's a comprehensive checklist to help you stay on track.

## *2 Months Before Moving*

- ☐ Create a "move file" to keep track of estimates, receipts and other important information.
- ☐ Check with the IRS to see what expenses can be deducted on your next tax return.
- ☐ Start researching your new community. The Internet is a great resource for finding online community guides and newspapers.
- ☐ Contact your new Chamber of Commerce for their new resident packet.
- ☐ Draw out a floor plan of your new home and start deciding which function each room with serve.
- ☐ Budget for moving expenses and start collecting estimates
- ☐ Read up on moving tips and topics at our Moving Resource Center.

## *6 Weeks Before Moving*

- ☐ Start pulling together medical and dental records - including prescriptions and shot records. Ask your existing doctors if they can refer you to a care provider in your new city.
- ☐ Arrange to have school records transferred to your children's new school district and/or daycare.
- ☐ Get copies of any legal and financial records you need.
- ☐ Arrange for veterinarian records to be transferred.
- ☐ Call your insurance agent to see what changes to expect in your policies for changing states. Ask if moving is covered and arrange for insurance for your new home.
- ☐ Contact health clubs or other organizations you have joined. Ask how you can end, sell or transfer your membership.

## *5 Weeks Before Moving*

- ☐ Make a list of things that are valuable or difficult to replace. Plan on shipping these by certified mail or carrying them with you.
- ☐ Make a list of friends, relatives and businesses who need to be notified of your move.
- ☐ Start working your way through each room taking inventory and deciding what to get rid of. Start planning a yard sale or contact your local charities.
- ☐ Think about subscribing to the newspaper in your new hometown to start learning about events and the local culture.
- ☐ Start to use things that can't be moved, such as frozen foods, bleach and aerosol cleaners.
- ☐ Start collecting boxes and other packing supplies. You can order a wide selection of boxes to be delivered to your door.
- ☐ Start packing items you don't use often. Also start disposing of the items you've designated for a yard sale, donation or the junk yard. If you donate, be sure to get a receipt for income tax purposes.
- ☐ Start pinpointing a "drop date" for your truck/trailer. This will be the day you receive your trailer and have it left for loading. Try to take advantage of the lower rates offered Tuesdays through Thursdays and during the first three weeks of the month.
- ☐ Plan ahead for parking. Remember you will be receiving a 28 foot commercial trailer, which will require a 14 foot overhead clearance. You may need your reserved space for up to two business days and should contact your property manager or local authorities to ensure you will be complying with any rules or restrictions.
- ☐ Plan for short-term or long-term storage at destination if needed.

## *4 Weeks Before Moving*

- ☐ Reserve your truck/trailer online. Reservations should be made at least two business days prior to your move date. Please keep in mind that reservations are based on availability. Companies have ramps for rentals that you can reserve at the time of

reservation. If you will need other loading equipment, make reservations with a local equipment-rental yard.

- File a change of address. If you are unsure of your new address will be, ask the postal service to hold your mail in their office in your new city.
- Schedule disconnection of all utility services at your old home, and connection of them at your new one. Be sure to disconnect the day after you leave and connect the day before you arrive. If you have "last month" deposits with services, such as the water or gas company, request your refund.
- Make travel arrangements for your pets, do not forget to include necessary medical and immunization records.
- Advertise and host your garage sale.
- Call your newspaper courier and set a date to cancel your subscription.

## *3 Weeks Before Moving*

- Make sure all library books have been returned and all dry cleaning or items out for repair have been picked up. Also retrieve any items out on loan.
- Contact your utility companies on both ends of the move to order dates for termination or turn-on.
- Decide if you will keep your plants or give them away. Remember plants cannot be loaded with your other household goods.
- Dispose of flammables, corrosives and poisons.
- Have your automobile(s) serviced.
- Prepare auto registration to be transferred.
- If you are moving into or out of an apartment, arrange to use the elevator on your move day.

## *2 Weeks Before Moving*

- Contact your bank and/or credit union to transfer or close accounts. Clear out safety deposit boxes. Pick up traveler's checks or cash for "on the road" expenses.

- ☐ Confirm travel arrangements for pets and family.
- ☐ Confirm parking for your trailer.
- ☐ Notify any creditors of your move.
- ☐ Plan meals for the last week of the move to help empty the refrigerator and avoid using appliances that will already be packed.
- ☐ Assemble a folder of important information about the house for the new owner of your home.

### *1 Week Before Moving*

- ☐ Finish packing and prepare an "essentials" box. Designate several boxes and items as "last load" items. Pack your suitcases and valuables separately.
- ☐ Drain all gas and oil from your mower and other motors. Gas grills, kerosene heaters, etc. need to be emptied as well.
- ☐ Drain water hoses and waterbed.
- ☐ Empty, defrost and clean your refrigerator at least 24 hours before moving day. Prepare all appliances for loading.
- ☐ One or two business days before your move, contact your local ABF terminal to confirm a time to receive your trailer.
- ☐ Fill any prescriptions or medications you will need for the next couple of weeks.
- ☐ Make childcare arrangements for moving day.
- ☐ Notify friends and family of your new address and phone number.

### *Move Out Day*

- ☐ It is necessary for you to be present when your truck/trailer is delivered. You will need to show the driver where you want the trailer parked and sign for delivery.
- ☐ Inspect your trailer for cleanliness and leaks before signing for delivery.
- ☐ Measure your space on the trailer, so you know where your boundary is. If you need more or less space, you can take it and simply adjust your base rate by your "per foot" charge.

- You are ultimately responsible for how your goods are packed and loaded in your trailer. Be familiar with our packing and loading tips and personally supervise hired labor.
- Load your goods in a pre-designated order, saving "last load" items for the rear of your shipment. This might include your vacuum cleaner or bed sheets.
- Check every room, closet and cabinet one last time before deciding everything is loaded.
- Once your goods are loaded, install the bulkhead.
- Take note of utility meter readings.
- You should have received a copy of your Bill of Lading, or BOL, when you received your trailer. Look this document over carefully and contact your moving coordinator with any questions or concerns.
- Make sure the destination address and contact information on your BOL is correct and write in the number of feet taken by your shipment. This is very important, as an accurate BOL ensures an accurate rate.
- Call the local truck/trailer terminal when your trailer is ready to be picked up.
- When the company picks up your truck/trailer, verify the footage with the driver and sign the BOL.
- The day after your trailer is picked up call your local terminal to verify charges and to get your "pro" or tracking number. You can use this number to track your shipment around the clock.
- Leave a note with your new address in the house so that future residents can forward any stray mail.
- Keep a friend or family member informed of your plans and "whereabouts" in case of an emergency or unforeseen event.

## *Moving In*

- You are likely to arrive at your new home ahead of your shipment. Take this time to look things over and to ensure your new utilities have been connected.

- Check appliances and systems to ensure all are working properly, and arrange for repairs if necessary.
- Check to see if your mail is making it to your new address or pick up any mail being held.
- Consider drawing out your new floor plan and decide where you want furniture and appliances placed.
- Keep track of your shipment and work with the local terminal to schedule delivery of your trailer. Plan ahead for parking.
- As at origin, make a point to be present when the company delivers your truck/trailer. Show the driver where you want the trailer parked and sign for delivery. If you are unable to do this, work closely with a friend or representative to accept your shipment.
- Unless you are paying by credit card, have a cashier's check or money order ready for the driver.
- After your goods are unloaded, contact your local terminal to have your trailer taken away. Be sure to remove all debris, leaving only the bulkhead in the trailer.

## *After You're All Moved In*

- Keep all receipts and documentation in your move file and store the file in a safe place. Be sure to include your Bill of Lading and delivery receipt. You will be glad to have everything in one place at tax time.
- Make an appointment online with the DMV to get an updated driver's license and your vehicle registration for your automobile with your new address.
- Register to vote.
- Contact the local paper for a new subscription.

# Benefits of Bi-Weekly Payments

## *One Extra Mortgage Payment*

Paying down your mortgage is one of the most important things that you need to do. The fact is that making a commitment to repay your mortgage in 10, 20 or 30 years is a good choice. What if you could cut down that time considerably? You could even knock years off of your loan by just making one extra payment per year. If you are thinking that you cannot afford to do this, chances are good that you can do it without even realizing it.

## *How does one payment matter?*

Making an extra payment to your mortgage is something that you should consider because it can save you thousands of dollars. The fact is that just one payment can make a considerable difference in the total that you pay for your home and, what's more, it can shave years off of your mortgage. Take a look at the following example. You can use a mortgage calculator to help you to find out this information specific to your current loan.

Example A: If you currently have a $200,000 mortgage loan and you have secured an interest rate at 4.125 percent, your monthly payment is likely to be $969.30 dollars per month if your loan term is 30 years. This is a considerable payment and you may not realize the real amount you will be paying on the home you are purchasing. It will cost you far more than $200,000.

Original mortgage amount: $200,000
Interest rate: 4.125 percent
Term: 30 years
Monthly payment: $969.30
Total interest paid on your loan: $148,947.81
How much you will really pay in full at the end of your term: $348,947.81

This information is provided to you on your amortization statement which is what you will see at the time of closing the sale on your home. Your lender must provide this for you before

you sign your paperwork, so the amount you will pay for your home when interest is factored in shouldn't be a surprise. If you are still unsure, use a mortgage calculator to help you see what these numbers are for your particular situation.

Example B: What will likely be a shock to you is just how much you can save if in fact you add that additional payment to your loan. If you add just another payment per year of $969.30 as in the example above, you could save yourself quite a bit of money. Here's how this breaks down for you.

Original mortgage amount: $200,000
Interest rate: 4.125 percent
Term: 30 years
Monthly payment: $969.30
Additional payment per year of: $969.30
Total interest paid: $115,359.11
Total cost of your loan when paid in full: $315,359.11
Payoff date of the loan is reduced by: 6 years!

In Example B, you see that you have not just cut into the amount of interest that you are saving by an outstanding savings of nearly $33,588 but you also have cut out the time that you will be repaying your loan down to just 24 years instead of the full 30 years. That savings can be figured out for your specific loan by using a mortgage calculator. You simply need to calculate what an additional payment per year will do to your loan.

### *Where can I get an extra payment?*

While for some, it shouldn't be too much of a strain to get an extra payment for your mortgage together, it is quite different for those that live paycheck to paycheck or that have their budget fully aligned without much room. For these individuals, $969.30 is a lot of money to put into a loan that you technically do not have to. Yet, you may be able to do so without realizing that you are.

Most people get paid every two weeks. This amounts to being paid 26 times per year. Yet, you only have to make 12 payments, one per month on your mortgage. If half of each of your paychecks goes to your mortgage, you still have only 24 mortgage based payments, leaving two extra paychecks per year that do not apply to your mortgage. Because of this, you likely have an additional month's mortgage payment without realizing it.

Two times per year, you are going to have three paychecks per month. Those extra paychecks can easily be used to apply to your mortgage so that you do not feel that pain. In fact, many mortgage companies will allow you to set up and use a bi monthly payment schedule that will withdraw half of your monthly payment every two weeks. You never really notice nor feel in your budget that you have made that additional payment. Do make sure that your lender allows you to apply this additional amount paid to your principle not just your interest for this time frame.

There are many reasons why you should consider doing just this. First, you are investing your money into your home and saving yourself thousands of dollars. What's more, if you do need to borrow from your home's equity at some point, this extra money is available to you, socked away where you can keep it saving you money.

Take the time to use a mortgage calculator to see just how much money you can save by investing one extra payment per year into your home. For those that have a higher interest rate than the example listed, the savings are even better. Increase your payment every two weeks by just a bit more and save more. Taking charge of your mortgage is the first step.

# Why Refinance?

Now that you've completed the transaction for your new home, it is important to remember, there's still more to consider. The goal again is to pay off your mortgage before you retire, but in some cases you may need to refinance. Here are some situations that may come up:

1. Your home appreciates in value and the value of the home is below 80% of the balance and you would like to remove the PMI. Call your lender and request for them to order an appraisal (which is usually charged upfront and non-refundable).
2. Your home has enough equity to do a cash out refinance to use the money for home improvements, debt consolidation or cash out for other personal reasons.
3. You want to lower the interest rate and you can qualify for a 1% better or better lower rate

Sometimes it may not may not make sense to refinance if the cost of the refinance takes several years to re-coop. Especially if you plan on selling your home in a few years. Don't be afraid to ask your loan officer to figure you this out for you. It is part of their responsibility to you.

Example:

Your loan balance is going up $1,000.

Your monthly savings is $100.

$1,000 / $100 = 10 months to recoup your closing costs.

## *Mortgage Options During a Divorce*

Going through a divorce can be a traumatic time for anyone. Although the love may have faded away and you want to part ways, the home you've acquired while married can turn into a major obstacle for both parties. Despite the fact the divorce decree states that your ex-spouse will take care of the property and mortgage payments, it is crucial that you realize this will not remove your liability from the loan obligation. When you signed the loan

documents, you mutually agreed to repay the loan until the debt has been satisfied. In 2007, before the housing market collapse, divorcing couples had no problems selling their property, splitting the equity and parting ways, but times have definitely changed. Generally, mortgage debt is the largest investment a divorcing couple has to split and divorcing a mortgage isn't as simple as one may think. To omit the spouse's liability from the mortgage, the property will either need to be sold, refinanced or assumed. One can always choose to keep oneself on the mortgage, but this is a risky position if the other spouse happens to default on the loan. We've come across thousands of homeowners in this situation here in our forum. The following is a list of your options during these strenuous times:

## *Quitclaim Deed or Inter-spousal Transfer Grant Deed*

A quitclaim deed is a document that transfers any interest an individual has in a property to another. They can be utilized to transfer interest from one spouse to another, but it does not eliminate the liability for the associated debt. If your name is attached to the loan and you quitclaim your interest to the remaining spouse, don't be surprised if the lender comes after you for a missed payment or, worse, foreclosure. Inter-spousal transfer grant deeds are also sometimes used in a divorce situation. This makes it simple to transfer interest from one spouse to another and also to change community property into separate property. The process is similar to that of a quitclaim deed. You will need to sign these together with a notary and it is always wise to consult with an attorney to make sure it is filled out accordingly.

## *Sell the Property*

Generally, the easiest and most effective way to get both names off the mortgage and to remove liability from the debt is to sell the home. The sale can pay off the existing mortgage, and any leftover proceeds can be split between both parties. It may be more convenient to try to sell the property before the divorce is complete to help avoid any future problems over the sales price. Additionally, this benefits both parties, as you will not have to worry about the other spouse managing the monthly payments, maintaining the household, or paying property taxes and insurance. However, since the housing crash, selling the home is easier

said than done, especially when you are underwater (meaning you owe more on the mortgage(s) than the home is worth). Underwater homeowners are forced to either come up with the difference between the home value and loan amounts or pursue a short sale. Be advised that with any short sale, your credit score will be negatively affected and you both may still be liable for the difference the lender has forgiven unless the lender has agreed (in writing or by law) to waive their rights to the deficiency.

### *Refinance the Mortgage*

Having one spouse refinance the mortgage into their name only is another very effective way to remove one's liability from the mortgage. This can be a simple fix if the following applies:

1. There is sufficient equity to qualify for a refinance. Keep in mind that there is currently one refinance program available for underwater homeowners, called the Home Affordable Refinance Program (HARP). For this program, either Fannie Mae or Freddie Mac must own your mortgage.
2. The remaining spouse is financially stable and has the income and credit to secure a loan.
3. Both spouses mutually agree to the transaction and allow one party to remain in the home. Typically, the spouse that wants to keep the property will pay off the other spouse's equity share while refinancing the loan solely into their name. It is suggested to include a quit-claim deed to extinguish any rights the other party has to the home. It is crucial that you make sure the home is only refinanced into one spouse's name. This will ensure that the spouse who did not keep the home is safe in the event of a default or foreclosure on the property. If the divorce has not yet been finalized and you've already decided who will be keeping the property, it is a good idea to include in your divorce decree which spouse will be refinancing the loan. This way you can prove that both parties have come to an agreement as to who will be taking over the home and mortgage payments. Before considering taking over the home yourself and becoming fully responsible, ask yourself, "Can I truly afford to keep the home and would I like to continue living there once I have

moved on?' Homes hold memories of times shared with love ones, which can make it that much more difficult to move on with your life. Think of it this way; would you consider buying this home if you were single and out browsing for a place to live?

### *Mortgage Assumption*

A mortgage assumption is one option that is not brought up all that often, primarily because they are very rare these days. Another main reason is that not all mortgages are assumable and, even if they are, many mortgage lenders tend to be hesitant to do so. Therefore, your only way to find out is to call your servicer and see if this is a viable option. If the mortgage lender will allow one party to assume the loan, you will begin the process by completing an assumption agreement and a release of liability. The bank will also require your financial documentation to determine whether or not the mortgage can be handled based on one borrower's income. If you do meet the requirements, you may also have to provide a copy of your divorce decree and quit claim deed. If the assumption is approved, one spouse will receive a release from liability. For homeowners going through a divorce, an assumption may be a good option to explore (if your loan allows you to do so). While there may be a few small fees associated with an assumption, they are usually much less than the fees that will come along with a refinance.

# Appendix

## Mortgage Glossary

**Abstract of Title -** A summary of recorded transactions concerning a particular property.

**Acceleration Clause -** Condition in a mortgage that gives the lender the right to require immediate repayment of the loan balance if regular mortgage payments are not made or for breach of other conditions of the mortgage.

**Accrued Interest -** Interest earned but not yet paid.

**Adjustable Rate -** An interest rate that changes periodically according to an index.

**Adjustable Rate Mortgage (ARM) -** A mortgage with an interest rate that adjusts periodically based on a preselected index, causing interest rates and payments to rise and fall with the market.

**Adjustment Interval -** The time between changes in the interest rate and monthly payments on an ARM.

**Agent -** One that acts for or represents another.

**Agreement of Sale -** Also known as a "sales contract," a written document in which a purchaser agrees to buy property under certain given conditions, and the seller agrees to sell under certain given conditions.

**Alternative Documentation -** A method of documenting a loan file that relies on information the borrower is likely to be able to provide, instead of waiting on verification sent to third parties for confirmation of statements made in the application.

**Amortization -** A monthly repayment schedule in which a loan is repaid in fixed payments of principal and interest.

**Annual Percentage Rate (APR) -** The annual cost of a loan, expressed as a yearly rate. APR takes into account interest, discount points, lender fees and mortgage insurance, so it will be slightly higher than the interest rate on the loan.

**Application -** Often referred to as a 1003, an initial statement of personal and financial information required to approve your loan.

**Application Fee -** A fee charged by a lender to cover initial costs of processing a loan application, often including charges for property appraisal and a credit report.

**Appraisal -** A written estimate of a property's current market value, based on recent sales information for similar properties, the current condition of the property and how the neighborhood might affect future property value.

**Appraisal Fee -** A fee charged by a licensed, certified appraiser to render an opinion of market value as of a specific date.

**Amortization Re-Cast Period -** Pre-determined period of time (expressed either in a number of months and/or a percent of increase from original principal balance) after which any/all accumulated "negative amortization" (aka "deferred interest") is accounted for in a re-amortization of the loan balance over the remaining term of the mortgage at the then prevailing rate of interest. Amortization is also re-casted at each adjustment even if no negative amortization. Typically, any payment cap that would otherwise factor in is disregarded in the event of re-casting.

**Amortization Re-Cast Limitation -** Amortization is most often "capped" at 110 or 125 percent of the original principal balance. Re-amortization typically occurs every 60 months and/or at such time as the balance reaches the pre-determined "cap."

**ARM Assumability -** Some ARM products feature "assumability" to a qualified applicant. The assumability of an ARM loan may make it more attractive to an applicant who envisions selling their home at a later date. By incorporating an assumable mortgage product, they may be able to make their home more attractive to potential buyers.

**ARM Disclosure -** An additional disclosure specific to adjustable rate mortgages that must be prepared and presented to the consumer within three days of application whenever an adjustable-rate mortgage transaction is contemplated (Note: home equity lines have their own unique disclosure).

**ARM Handbook -** The Consumer Handbook to Adjustable Rate Mortgages ("CHARM" booklet) must be presented to the consumer within three days of applying for an ARM loan (in addition to the ARM disclosure referenced above).

**ARV** - After repair value; usually used when doing a rehab loan.

**As-Is Value -** The value of a property as it exists legally and physically, as of the effective date of value.

**Assessment -** A local tax levied against properties that have benefited from civil improvements such as road or sidewalk construction, a sewer or street lights.

**Asset -** Anything of monetary value that a person owns. Assets include real property, personal property and enforceable claims against others (including bank accounts, stocks, mutual funds and so on).

**Assignment -** The transfer of property rights from one person to another.

**Assumability -** A feature of a loan allowing it to be transferred to the new purchaser of a home. Assumable mortgages can help attract buyers because assumption of a loan requires lower fees and/or qualifying standards than a new loan.

**Assumption -** Agreement between buyer and seller for the buyer to take over the payments on an existing mortgage.

**Balance Sheet -** A document showing the financial situation-assets, liabilities and net worth of a person at a specific point in time.

**Bankruptcy -** Proclamation by a court of an individual's (or organization's) state of insolvency, or inability, to pay debts. Petition may be brought by an individual or his creditors, with a goal of orderly and equitable settlement of obligations.

**Bearer -** The legal owner of a piece of property.

**Bill of Sale -** A document that transfers ownership of goods from one person to another.

**Bi-Weekly Mortgage -** A payment plan under which one pays one-half of a monthly payment every two weeks, saving interest substantially over the life of the loan.

**Borrower (or Mortgagor) -** An individual who applies for and receives a loan in the form of a mortgage with the intention of repaying the loan in full.

**Broker -** An individual who assists in arranging funding or negotiating contracts for a client, but does not loan money himself.

**Buy-Down -** A situation in which the seller contributes money that allows the lender to give the buyer a lower rate and payment, usually in exchange for an increase in sales price. With a refinance, this could be paid by the borrower.

**Buyer's Broker -** An agent hired by a buyer to locate a property for purchase and to represent the buyer in negotiations with the seller's broker for the best possible deal for the buyer.

**Buyer's Market -** Market conditions that favor buyers. With more sellers than buyers in the market, buyers have ample choice of properties and can negotiate lower prices.

**Call Option -** A provision in the mortgage that gives the mortgagee the right to call the mortgage due and payable at the end of a specified period for whatever reason.

**Caps -** Limits on changes in ARM interest rates or monthly payments, either in an adjustment period or over the life of the loan. Consumer safeguards may limit the amount monthly

payments on an adjustable-rate mortgage may change. Because they do not limit the amount of interest the lender is earning, they may cause negative amortization.

**Cash-Out -** A refinance for more than the balance of the original mortgage, with the extra money is taken out of the equity in the property.

**Cashier's Check (or Bank Check) -** A check whose payment is guaranteed because it was paid for in advance and is drawn on the bank's account instead of the customer's.

**Ceiling -** The maximum allowable interest rate of an adjustable-rate mortgage.

**Certificate of Eligibility -** Document issued by the Veterans' Administration to qualified veterans that entitles them to VA guaranteed loans. This certificate can be obtained through local VA office by submitting form DD-214 (Separation Papers) and VA form 1880 (request for Certificate of Eligibility).

**Certificate of Occupancy -** Document issued by local government agency stating that a property meets the requirements of health and building codes.

**Certificate of Reasonable Value (CRV**) - A property appraisal performed by a VA approved appraiser that establishes the limit on the principal of the VA loan.

**Certificate of Title -** Written opinion of the status of title to a property, given by an attorney or title company. This certificate does not offer the protection given by title insurance.

**Certificate of Veteran Status -** Document given to veterans or reservists who have served 90 days of continuous active duty (including training time), which enables them to obtain lower down payments on certain FHA-insured loans. Obtainable through local VA office by submitting form DD-214 (Separation Paper) with form 26-8261A (request for Certificate of Veteran Status).

**Certified Check -** A check drawn on the issuer's account for funds that have been segregated by the bank, guaranteeing payment.

**Chain of Title -** The chronological order of conveyance of a property from the original owner to the present owner.

**Clear Title -** A marketable title, free of clouds and disputes.

**Closing (or Settlement) -** Meeting between the buyer, seller and lender or their agents at which property and funds legally change hands.

**Closing Costs (also referred to settlement costs) -** Fees incurred in a real estate or mortgage transaction and paid by borrower and/or seller during a mortgage loan closing. These typically include a loan origination fee, discount points, attorney's fees, title insurance, appraisal, survey and any items that must be prepaid, such as taxes and insurance escrow payments. The cost of closing is usually about 3 to 6 percent of the mortgage amount.

**Closing Statement -** A financial disclosure statement that lists the funds received and expected at the closing.

**Cloud on Title -** An outstanding claim or encumbrance that, if valid, would affect or impair the owner's title.

**Collateral -** Assets that back a mortgage loan.

**Combined Loan-to-Value (CLTV) -** The ratio of the total mortgage liens against the subject property to the lesser of either the appraised value or the sales price.

**Commission -** Money paid to a real estate agent or broker by the seller for their service. Real estate commissions are set at 6 to 7 percent of a home's sale price. This percentage is noted on the listing agreement. Loan officers also make commission on a loan transaction, which can either be set as borrower paid compensation or lender paid compensation. The fee may or may not be financed into the loan depending on the loan program.

**Commitment -** A formal offer by a lender to make a loan under certain terms or conditions to a borrower.

**Condominium -** A form of property ownership in which the homeowner holds title to an individual dwelling unit and an interest in common areas and facilities of a multi-unit project.

**Conforming Loan-** A mortgage loan under the maximum amount of loans that FNMA and FHLMC are legally allowed to buy. Maximum loan amount varies by county.

**Consumer Financial Protection Bureau (CFPB) -** A federal agency that enforces laws that protect consumers of financial products and services such as mortgages, credit cards and deposit accounts.

**Contingency -** A condition that must be satisfied before a contract is legally binding before a sale can close.

**Contract of Sale -** The agreement between the buyer and seller on the purchase price, terms and conditions of a sale.

**Conventional Loan -** A mortgage not insured by the FHA or guaranteed by the VA.

**Conversion Clause -** A provision in some ARMs allowing you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is set at current rates, and there may be a charge for the conversion feature.

**Conversion Option -** Many "short-term" ARM products feature a conversion option. This option allows a consumer, subject to certain restrictions, to convert the loan from an adjustable to a fixed-rate mortgage.

**Convertible ARMs -** ARMs with the option of conversion to a fixed loan during a given time period.

**Conveyance -** The transfer of a deed or possibly a lease or mortgage.

**Cost of Funds Index (COFI) -** An index of the weighted-average interest rate paid by savings institutions for sources of funds, usually by members of the 11th Federal Home Loan Bank District.

**Covenants, conditions and restrictions (CC&Rs) -** Rules placed on PUD, condo and townhome developments that are placed on a group of homes by a builder, developer, neighborhood association and/or homeowner association.

**Credit Report -** A report detailing the credit history of a prospective borrower, used when determining creditworthiness.

**Credit Risk -** The possibility that the borrower may default on financial obligations.

**Debt-to-Income Ratio (DTI) -** The ratio, expressed as a percentage, that results when a borrower's monthly payment obligation on long-term debts is divided by monthly income.

**Deed -** A legal document that transfers a property from one owner to another. The deed contains a description of the property, and is signed, witnessed and delivered to the buyer at closing.

**Deed of Trust -** Agreement to pledge property as security for a loan, used in many states in place of a mortgage. In this arrangement, the borrower transfers legal title to a trustee who holds the property in trust as security for the repayment of the debt. The deed of trust becomes void if the debt is repaid, but if the borrower defaults on the loan, the trustee may sell the property to pay the debt.

**Default -** Failure to meet legal obligations in a contract, including failure to make payments on a loan. A mortgage is generally considered to be in default when a payment is 30 or more days past due.

**Deferred Interest -** Interest added to the balance of a loan when monthly payments are not sufficient to cover it. (See Negative amortization.)

**Delinquency -** Failure to make payments on time.

**Deposit -** Cash paid when a formal sales contract is signed. The deposit is usually held by a third party until the sale is complete.

**Depreciation -** When the value of property declines.

**Discount Points (or Points) -** Money paid to a lender at closing in exchange for lower interest rates. Each point is equal to 1 percent of the loan amount.

**Documentary Stamps -** A state tax, in the forms of stamps, required on deeds and mortgages when a real estate title passes from one owner to another.

**Down Payment -** Money paid for a house from one's own funds at closing. The down payment will be the difference between the purchase price and mortgage amount.

**Due-on-Sale Clause -** Provision in a mortgage or deed of trust allowing the lender to demand immediate payment of the loan balance upon sale of the property.

**Earnest Money -** Deposit made by a buyer in evidence of good faith when the purchase agreement is signed.

**Effective Interest Rate -** The cost of a mortgage expressed as a yearly rate, usually higher than the interest rate on the mortgage since this figure includes up-front costs.

**Encumbrance**
A legal right or interest in a property that affects title and lessens the property value. Encumbrances can take the form of claims, liens, unpaid taxes and so on. These will usually have to be taken care of before a buyer may purchase a property.

**Equal Credit Opportunity Act (ECOA) -** Federal law requiring creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

**Equity -** The percentage of property value held by the owner; the difference between the current market value of a property and the outstanding mortgage balance.

**Equity Loan -** A loan based on the borrower's equity in his home.

**Escrow -** The neutral third party that holds money and/or documents until the escrow instructions are fulfilled and escrow can be a title company or an attorney, depending on state regulations.

**Escrow Account -** Account held by a lender containing funds collected as part of mortgage payments for annual expenses such as taxes and insurance, so that the homeowner does not have to pay a large sum when these fall due.

**Escrow Waiver -** Escrow Waiver is waiver of the requirement to fund an escrow account with lender and instead pay insurance and taxes separately. This waiver may require a fee and is not available with all loan programs.

**Fair Housing Act (FHAct) -** Prohibits discrimination in real estate transactions because of race, color, religion, sex, handicap, familial status (families with children), or national origin. It applies to mortgage lending as well as other aspects of real estate transactions, including sales and rentals, real estate brokerage, and appraisals.

**Farmer's Home Administration (FMHA) -** An agency within the U.S. Department of Agriculture that provides financing for homes and farms in small towns and rural areas.

**Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) -** Quasi-governmental agency that purchases conventional mortgages from insured depository institutions and HUD-approved mortgage bankers.

**Federal Housing Administration (FHA) -** A government agency, division of the Department of Housing and Urban Development, which insures residential mortgage loans made by private lenders and sets standards for underwriting mortgage loans.

**Federal National Mortgage Association (FNMA or Fannie Mae) -** A quasi government agency created by Congress that buys and sells residential loans.

**Federal Reserve -** The central bank of the United States and major regulatory agency for many commercial banks.

**Fee simple -** absolute ownership of real property.

**FHA Loan -** A loan insured by the FHA open to all qualified home purchasers.

**First Mortgage -** A mortgage that is in first lien position, taking priority over all other liens. In the case of foreclosure, the first mortgage will be repaid before any other mortgages.

**Fixed Rate -** An interest rate that is fixed for the term of the loan.

**Fixed Rate Mortgage -** A mortgage with an interest rate that doesn't change for the life of the loan, guaranteeing fixed payments.

**Flood Insurance -** A form of hazard insurance required by lenders to cover properties in flood zones.

**Floor -** The minimum rate of interest payable on an adjustable-rate mortgage.

**Floor (Interest - ARM) -** A pre-determined amount that establishes the minimum interest rate life of a loan. This can be expressed as a percentage below the start rate, as a rate of interest independent of the start rate, or, quite typically, the "Floor" may be established as being equal to the Margin.

**Forbearance -** Grace period given when a lender postpones foreclosure to give the borrower time to catch up on overdue payments.

**Foreclosure (or Repossession) -** Legal process by which the lender forces the sale of a property because the borrower has not met the mortgage terms.

**Good Faith Estimate (GFE) -** This document sets out the costs associated with a mortgage, including the interest rate, lender fees, title charges, pre-paid interest and insurance. The government requires that your lender give you a GFE within three days of receiving your loan application. The GFE is only an estimate; some fees can change before closing. Lender fees and the interest rate (if you have locked your rate) may not increase, and certain other costs may not increase by more than 10 percent.

**Government National Mortgage Association (GNMA or Ginnie Mae) -** A government agency that provides funds for VA and FHA loans.

**Graduated Payment Mortgage (GPM) -** A mortgage with initial low payments (with potential negative amortization) that increase regularly for several years and then level off.

**Grace Period -** Period of time during which a loan payment may be made after its due date without incurring a late penalty.

**Gross Income -** Total income before taxes or expenses are deducted.

**Gross Monthly Income -** The total amount earned by a borrower each month.

**Guarantee -** To assume liability for another's debts in the event of default.

**Guaranty -** A promise by one party to pay a debt or perform an obligation contracted by another in case of that person's default.

**Hard Money Loan** – A specific type of asset-based loan financing through which a borrower receives funds secured by the value of a parcel of real estate. Hard money loans are typically issued by private investors or companies.

**Hazard Insurance -** Protects the insured against loss due to fire or other natural disaster in exchange for a premium paid to the insurer.

**Home Equity Loan -** A loan secured by equity in a property. These are sought for a variety of purposes, including home improvements, major purchases or expenses and debt consolidation. Interest paid is usually tax-deductible.

**Homeowner's Warranty -** A type of insurance that covers repairs to specified parts of a house for a specific period of time.

**Housing and Urban Development (HUD) -** A U.S. government agency established to implement federal housing and community development programs; oversees the Federal Housing Administration.

**Housing Code -** Local government ordinance that sets minimum standards of safety and sanitation for existing residential buildings.

**Housing Expense-to-Income Ratio -** The ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his/her monthly income.

**HUD-I Settlement Statement -** A form that itemizes the closing costs associated with purchasing a home.

**Impound (or Reserves) -** A portion of a borrower's monthly payments held by the lender to pay for taxes, insurance and other items as they become due.

**Impound Account -** Savings account for accumulating that portion of a borrowers monthly payments designated for future payments of taxes and insurance. (Required by certain lenders or with certain types of financing.)

**Index -** A published rate used by lenders to calculate interest adjustments on ARMs (Index + Margin = Interest Rate). Some indexes are more volatile than others.

**Index (or ARM) -** Established at loan origination, the index is a widely published financial indicator that, combined with the Margin, works to establish the effective rate of an adjustable-rate mortgage ("Index + Margin = Rate").

**Initial Rate -** The rate charged during the first interval of an ARM.

**Insolvency -** Condition of a person who is unable to pay his debts as they fall due.

**Interest -** Charge paid for borrowing money, calculated as a percentage of the amount borrowed.

**Interest Rate -** The periodic charge, expressed as a percentage, for use of credit.

**Interest Rate Cap -** A safeguard built into ARMs to prevent drastic changes in interest rates.

**Interest Rate Change Date -** Dates upon which the rate of interest is subject to change. Initial change date and subsequent change dates may feature different terms.

**Joint Liability -** Liability shared among two or more people, each of whom is liable for the full debt.

**Joint Tenancy -** The ownership of property by two or more persons with the survivor taking the share of the deceased.

**Jumbo Loan -** A mortgage larger than the limits set by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

**Late Charge -** Penalty paid by a borrower when a payment is made after the due date.

**Lender -** The bank, mortgage company or mortgage broker offering a loan.

**LIBOR (or London Interbank Offered Rate) -** The interest rate charged among banks for short-term Eurodollar loans, and a common index for ARMs.

**Lien -** A claim by one person on the property of another for payment of a debt.

**Life cap (or Interest) -** A pre-determined amount that establishes the maximum interest rate life of loan. This can be expressed as a percentage above the start rate or as a rate of interest independent of the start rate.

**Loan Administration -** The collection of mortgage payments from borrowers and related responsibilities (such as handling escrows for property tax and insurance, foreclosing on defaulted loans and remitting payments to investors).

**Loan Application -** A document required by lenders prior to loan approval containing detailed information about the borrower and property.

**Loan Application Fee -** A fee a prospective buyer pays a lender when applying for a mortgage.

**Loan Origination Fee -** A fee a lender or broker charges to process a mortgage, usually expressed as a percentage of the loan (or points), which pays for the work in evaluating and processing the loan.

**Loan to Value Ratio (LTV) -** The percentage of the property value borrowed. (Loan amount/property value=LTV)

**Lock or Lock-In -** A lender's guarantee of an interest rate for a set period of time, usually between loan application and loan closing. This protects borrowers against rate increases during that time.

**Margin -** The number of percentage points added to an index to calculate the interest rate on an ARM at each adjustment.

**Marketable Title -** A title free and clear of liens, clouds or other defects that would prevent the sale of the property.

**Market Rate -** The average rate charged by lenders for a loan.

**Market Value -** The highest price that a buyer would pay for a property and the lowest price a seller would accept.

**Monthly Housing Expense -** Total monthly expense of principal, interest, taxes and insurance.

**Mortgage -** A document that creates a lien on a property as security for the payment of a debt.

**Mortgage Banker -** A professional that originates mortgage loans, funding them with his own money.

**Mortgage Broker -** A specialist that arranges financing for borrowers, but places loans with lenders rather than funding them with their own money.

**Mortgagee** - The lender in a mortgage loan transaction.

**Mortgage Insurance Premium (PMI) -** Insurance purchased by borrower to insure against default on a FHA loans.

**Mortgage Loan -** A loan for which real estate serves as collateral to provide for repayment in case of default.

**Mortgage Note -** A legal document that obligates a borrower to repay a loan at a stated interest rate during a specified period of time. The agreement is secured by a mortgage.

**Mortgagor** - The borrower in a mortgage loan transaction.

**Negative Amortization -** An increase in principal balance that occurs when monthly payments are not large enough to pay all interest due on a loan, usually caused when payment caps prevent sufficient payment increases. Unpaid deferred interest is added to the loan balance, causing the borrower to owe more than the loan's original amount.

**Net Effective Income -** Gross income minus estimated Federal income tax.

**Non-Assumption Clause -** A statement in a mortgage contract forbidding the assumption of the mortgage by another borrower without the prior approval of the lender.

**Non-Conforming Loan -** A conventional loan that cannot be sold to Fannie and Freddie Mac. Often, these loans are larger than the conforming loan amount.

**Non-Dischargeable Debt -** Debt, such as taxes, that cannot be forgiven in a bankruptcy liquidation.

**Non-Owner Occupied (NOO)** - A classification used in mortgage origination, risk-based pricing and housing statistics for one to four-unit investment properties. The property is not occupied by the owner. The term non-owner occupied is not typically used for multi-family rental properties, such as apartment buildings.

**Note -** Legal document stating the terms of a debt and a promise to repay it.

**Notice of Default -** Written notice to a borrower that a default has occurred and that legal action may be taken.

**Office of Comptroller Currency -** The federal financial regulatory body that oversees the nation's federally chartered banks and savings institutions.

**Origination Fee -** An upfront fee that a lender or broker charges, usually expressed as a percentage of the loan (or points) for evaluating and processing the loan.

**Owner Financing -** A purchase in which the seller provides all or part of the financing.

**Payment Cap -** Limit on the amount by which a borrower's ARM payments may increase, regardless of rise in interest rates. This may result in negative amortization.

**Payment Cap (ARM) -** A pre-determined amount that establishes the maximum by which the payment can increase, irrespective of increases to the interest rate.

**Payment Change Date -** Dates upon which the payment amount is subject to change. Products featuring "negative amortization" typically will include a payment change date which differs from the interest rate change date in frequency.

**Per Diem Interest -** Interest calculated per day. Depending on the day of the month on which closing takes place, you will have to pay interest from the date of closing to the end of the month.

**Periodic Interest Cap -** An interest cap that restricts how much adjustable-rate mortgage rates may increase or decrease on pre-determined change dates.

**Permanent Loan -** A long-term mortgage of 10 years or more with a fixed mortgage payment.

**PITI -** Also called "monthly housing expenses," principal, interest, taxes and insurance are the components of a monthly mortgage payment.

**Points (or Discount points) -** Interest prepaid to the lender at closing. Each point is equal to 1 percent of the loan amount. Paying more points at closing generally reduces a loan's interest rate and monthly payments.

**Power of Attorney (POA) -** Legal document authorizing one person to act on behalf of another.

**Pre-Approval** - An evaluation of a potential borrower by a lender that determines whether the borrower qualifies for a loan from the lender, or the maximum amount that the lender would be willing to lend.

**Pre-Paid Expenses -** Taxes, insurance and assessments paid in advance of their due dates, including at closing.

**Pre-Paid Interest -** Charged to a borrower at closing to cover interest on the loan between the closing date and the end of that month.

**Pre-Payment -** A full or partial payment of the principal before the due date. This might occur if the borrower makes extra payments, sells the property or refinances the existing loan. Some loan programs or lenders have a stipulation for paying off 20% or more of the mortgage in the first 12 months.

**Pre-Payment Penalty (PPP) -** Some short term ARM loans contain a provision against pre-payment without penalty. Terms of pre-payment penalty clauses vary from product to product, investor to investor, and state to state. Many states and even local municipalities have, or are contemplating, enacting legislation against pre-payment penalties.

**Pre-Qualification -** The process of determining how much money a prospective homebuyer may borrow, prior to application for a loan.

**Primary Mortgage Market -** Includes banks, savings and loans, credit unions, and mortgage bankers who make mortgage loans directly to borrowers. These lenders sometimes sell their mortgages to lenders such as FNMA in the secondary mortgage market.

**Prime Rate -** Lowest commercial interest rate charged by a bank on short-term loans to its most credit-worthy customers.

**Principal -** The amount of debt, not counting interest, left on a loan.

**Private Mortgage Insurance (PMI) –** Supplemental Insurance purchased by a buyer on a conventional loan when a down payment is less than 20 percent of the purchase price to protect the lender against default. This can be charged monthly or in one lump sum.

**Profit and Loss Statement -** A financial statement showing revenue, expenses and profits over a period of time for the self-employed business owner or independent contracted employee who files schedule C income on their tax returns.

**Property Tax -** A government tax based on the market value of a property.

**Purchase Agreement -** A contract signed by buyer and seller stating the terms and conditions of a home sale.

**Qualifying Rate –** Adjustable rate mortgages often employ a "qualifying fate" that differs from the "start rate." The qualifying rate may be a pre-determined percentage of interest (i.e. "8 percent"), expressed as the "highest possible rate of interest at the beginning of the 2nd year", based on the start rate (i.e. "start rate + 2 percent), expressed as the "Fully Indexed Accrual Rate" ("FIAR") or another amount.

**Qualifying Ratio -** A comparison of a borrower's expenses (housing or total debt) to his income.

**Real Estate Agent -** is a person who acts as an intermediary between sellers and buyers of real estate/real property and attempts to find sellers who wish to sell and buyers who wish to buy.

**Real Estate Broker -** A licensed professional who helps sellers sell a property — an intermediary between buyers and sellers. This person is also known as an estate agent. The broker represents the buyer, but does not have power of attorney or the right to make important decisions on the client's behalf.

**Real Estate Settlement Procedures Act -** A law that governs acceptable practices and fees in real estate transactions.

**Real Property -** Land and everything that is permanently affixed to it.

**Realtor** – Title for a real estate agent who is a member of the National Association of Realtors

**Reclamation -** The right of the person with title to a property to recover it from the debtor in case of a bankruptcy.

**Reconveyance -** The transfer of property back to the owner when a mortgage is fully repaid.

**Recording -** The act of entering documents concerning title to a property into public records.

**Recording fee -** Money paid to an agent for entering the sale of a property into the public records.

**Refinancing -** The process of paying off one loan with the proceeds from a new loan secured by the same property.

**Rent with Option to Buy -** See lease to purchase mortgage loan.

**Repossession (or Foreclosure) –** The legal process used by the lender to force the sale of a property, because the borrower has defaulted on their mortgage loan terms.

**Rescission -** The cancellation of a contract, permitted by law within three days of signing a mortgage not used to purchase a home.

**Reserves -** See Impound. Also reserves may be required depending on the loan program or lender's guidelines, which is based on the total PITIA for other rentals owned and possible the subject home.

**RESPA (Real Estate Settlement Procedures Act) -** See. Find more information online http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/res/respa_hm

**Sale Agreement -** A contract signed by buyer and seller stating the terms and conditions under which a property will be sold.

**Satisfaction -** The final payoff of a debt that satisfies an obligation.

**Secondary Mortgage Market -** The market in which primary mortgage lenders sell the mortgages they make to obtain funds to originate more new loans. This includes investors such as Fannie Mae and Freddie Mac.

**Second Mortgage -** A subordinate mortgage made in addition to a first mortgage.

**Seller's Broker -** An agent hired by a seller to represent him/her in negotiations to sell property.

**Seller's Market –** When the current market conditions favor for the sellers. With more buyers than sellers in the market, sellers have the negotiating power as demand exceeds supply.

**Servicing (or Loan administration) -** The collection of mortgage payments from borrowers and related responsibilities (such as handling escrows for property tax and insurance, foreclosing on defaulted loans and remitting payments to investors).

**Settlement (or Closing) –** Final signing of closing documents between the buyer, seller and lender (or their agents), disbursement and recording of funds while the property and funds legally change hands.

**Settlement Cost (HUD Guide) -** A booklet given to consumers after applying for a loan that provides an overview of the lending process. Download a copy:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/res/settlement-cost-booklet03252010

**Settlement Sheet (HUD-1) -** The itemized computation of costs payable at closing that itemizes the seller's net proceeds and the buyer's net payment.

**Simple Interest -** Interest that is computed only on the principal balance.

**Start Rate -** A pre-determined rate of interest that will be applied to the loan until the date of the first interest rate change.

**Stated Income/Stated Assets (SISA)** - A type of reduced documentation mortgage program, which allows the borrower to state on the loan application what their income and assets are without verification by the lender; however, the source of the income is still verified usually with 2 years business licenses, CPA letter, profit and loss/balance sheet and occasionally their business listing on the internet or phone book.

**Straw Buyer –** A buyer whom purchases a property on someone else's behalf that could not complete the purchase on their own. The buyer has no intention of using the home for their own personal needs, which is considered an illegal activity.

**Subsidized Second Mortgage -** Alternative financing option for low to moderate income households that also includes a down payment and a first mortgage, with funds for the second mortgage provided by city, county or state housing agencies, foundations or nonprofit corporations. Payment on the second mortgage is often deferred and carries low

interest rates (if any). Part of the debt may be forgiven for each year the family remains in the home.

**Survey -** A measurement of land, prepared by a licensed surveyor, showing a property's boundaries, elevations, improvements and relationship to surrounding tracts.

**Sweat Equity -** Value added to a property by improvements made by the owner.

**Tax Impound -** Money collected and held in an escrow account held by a lender for annual property tax payments. See Impound Account.

**Tax Lien -** Claim against a property for unpaid taxes.

**Tax Sale -** Public sale of a property by a government authority as a result of non-payment of taxes.

**Term -** The number of years until a loan is due to be paid in full.

**Title -** A document that gives evidence of ownership of a property, as well as rights of ownership and possession.

**Title Company -** A company that insures the title to a property.

**Title Insurance -** Insurance that protects the lender (lender's policy) or buyer (owner's policy) against any loss due to disputes over property ownership.

**Title Search -** Examination of municipal records to ensure that the seller is the legal owner of a property and that there are no liens other claims against the property.

**Transfer Tax –** County or City Tax charged when title passes from one owner to another.

**Trust Account -** An account maintained by a broker or escrow company to handle all money collected for clients.

**Trustee -** Someone who has been given legal responsibility to hold property in the best interest of another.

**Truth-in-Lending Act (or TIL) –** A federal law requiring written disclosure of the terms of a mortgage (including APR and other charges) by a lender to a borrower after application. This disclosure is a great comparison shopping tool. When shopping around make sure to compare the APR and total payments made over the life of the loan.

**Upfront Mortgage Insurance Premiums (or UMIP) - A** lump-sum amount borrowers must pay to receive an FHA loan based on the loan amount. UMIP can be paid up front, paid with seller credit and also can be financed.

**Underwriting –** Lenders have underwriters who will verify submitted loan documentation to ensure it meets all of the program and lender guidelines. The underwriter gives the final loan approval. In some cases, a second level review or manual underwrite may be required.

**USDA Loan –** Rural financing for low to moderate income borrowers up to 100% financing with low PMI, which uses FHA guidelines to qualify.

**VA Loan -** A home loan available to veterans with little or no down payment and guaranteed by the U.S. Veterans' Administration. VA credit overlays are strict, but can finance up to 100% loan to value and up to 60% debt to income ratio. VA loans are assumable.

**Variable Rate Mortgage -** See Adjustable-rate mortgage.

**Variable Rate -** An interest rate that changes periodically in relation to an index.

**Verification of Deposit (VOD) -** A document completed by the borrower's bank or other financial institution that verifies the borrower's account balance and history.

**Verification of Employment (VOE) -** A document completed by the borrower's employer that verifies the borrower's position, salary, length of time employed, gaps in employment and income breakdown.

**Verification of Mortgage (VOM)** – A document completed by borrower's mortgage lender or servicer to verify the account history if it is not reported on their credit report.

**Waiver -** Voluntary relinquishment or surrender of some right or privilege.

**Walk-Through -** A final inspection of a home by the buyer and selling agent to check for problems that may need to be corrected before closing.

**Warehouse Fee -** Mortgage firms often borrow funds from a warehouse lender on a short-term basis in order to originate loans and fund in their name, which will later be sold to investors in the secondary mortgage market for additional revenue. Lenders may charge a warehouse fee to cover an expense charged by the warehouse lender.

**Zoning Ordinances –** Local laws that establish building codes and usage regulations for properties in a specified area. This creation of districts specifies different types of property uses, such as commercial or residential. Residential zoning is required by most lenders when financing a home loan.

## Homeownership Resources

**PMC Blog – Stay Current on Mortgage, Real Estate, Credit and Finance**
http://pmcmortgageloans.wordpress.com/

**FHA Approved Condos**
https://entp.hud.gov/idapp/html/condlook.cfm?CFID=825275&CFTOKEN=958fe6c779b21487-86048AD8-AC0F-ABCC-7A6FB8AE80796EAD

**FHA Approved Contractors**
http://203kcontractors.com/contractor-search

**Mortgage Loan Limits**
https://entp.hud.gov/idapp/html/hicostlook.cfm

**HUD Guidelines**
http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh

**VA Home Loans**

http://www.benefits.va.gov/homeloans/

**Fannie Mae Guidelines**
https://www.fanniemae.com/singlefamily

**Freddie Mac Guidelines**
http://www.freddiemac.com/singlefamily/

**USDA Guidelines**
http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do

**HUD REO Homes**
https://www.hudhomestore.com/Listing/PropertySearchResult.aspx?sState=CA&sLanguage=ENGLISH

# Acknowledgment

We hope to inspire you into homeownership and the great rewards it will have for you and your family. Many families we have helped have overcome the challenges of the process and are extremely grateful that they accomplished it. We love helping people that never thought they could ever buy a home and we are extremely rewarded when we can help others save their home during a hardship. Homeownership is one of the greatest accomplishments we will complete in our lifetime. Everyone at Platinum Mortgage Company wishes you much success in your journey through homeownership.

Looking to get pre-approved or have a loan scenario question? If we can help you with your mortgage loan or real estate needs please contact us. Apply Online www.pmccanhelp.com, Email info@pmccanhelp.com or call 800-385-3657.

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