



HELPFUL INFORMATION ABOUT FINANCING YOUR HOME

MORTGAGE TYPES

There are a variety of mortgage products from which to choose based on your specific financial needs. These are the basic types you will find:

Fixed Rate: This is the most popular mortgage that people select. The monthly payment stays the same for the entire term of the loan. Typical terms for this loan are 15 and 30 years; however, 20-year terms are also available. Fixed rate loans are good if you plan on being in your house for a long time.

Adjustable Rate Mortgage (ARM): These loans are generally offered at a substantially lower starting rate than a fixed-rate mortgage. Interest rates on ARM loans change at specified intervals: every six months or every year. Depending on market trends, if interest rates increase, so will the mortgage payment. However, if rates go down, your mortgage payment will also decrease.

To limit the amount and frequency of this movement, most ARMs have caps or limits on how much the rate can change at any one time, as well as over the life of the loan. This product is good if you expect rates to remain stable or decline, or if you will be in your home a short period of time.

Balloon Rate Mortgage: These mortgages have a longer initial period before the first interest rate adjustment occurs. For example, the initial rate is fixed for five or seven years, and then ends with a single large payment (“the balloon”). This mortgage may be a good choice if you plan to be in your home for a short time.

FHA Mortgage: A Federal Housing Administration insured loan allows you to buy a home with a low down payment, ranging from 3% to 5% depending on the price of the home. This might provide you with more buying power.

VA Mortgage: If you are currently in the United States military, or if you have ever served in the U.S. armed forces, you may be eligible to get a loan insured by the Veterans Administration. If you qualify, this special government benefit to veterans might be a good option for you as it allows you to purchase a home with a low down payment, or no down payment.

Conventional Mortgage: Conventional loans are held by corporations created by Congress to support the secondary mortgage market. The two corporations are the Federal Home Loan Mortgage Corporation (FHLMC), popularly known as Freddie Mac, and the Federal National Mortgage Association (FNMA), popularly known as Fannie Mae. Payment of principal and interest on these loans is backed by the federal government.

WHICH MORTGAGE DO I CHOOSE?

There are many issues that determine which mortgage type is right for you. You will need to look at your current and future financial goals to determine which mortgage product meets your needs. You may want to think about the following questions when determining your goals:

- How long do you expect to live in your current home? Five, ten, or more years?
- Do you expect your income to increase in the coming years?
- Are you thinking about a career change that may alter your future income?
- Do you expect your home to increase in value?
- Do you want to pay off your mortgage quickly?
- Do you anticipate expenses such as college tuition?

Based on your answers to these questions, a loan officer can provide you with the mortgage that will assist you in achieving your financial goals. There are many products available so finding one to suit your needs should not be difficult.

THE MORTGAGE PROCESS

Beginning the mortgage process is easy. Even if you have not yet selected a specific home, you should call your loan officer to determine what mortgage amount you can qualify for. Use the mortgage application checklist to determine the documentation that you need for the application process.

MORTGAGE ASSISTANCE

NE Moves Mortgage will provide you with a personal loan officer who will assist you in selecting the best loan program for your financial circumstances at the most favorable interest rate. He or she will assist you every step of the way, right up to closing, and be available for questions at any time. This service is FREE to NE Moves customers.

MORTGAGE APPLICATION CHECKLIST

Before applying for a mortgage loan, you need to gather the following information for yourself and your spouse or partner, if applicable.

- Home Address(es)** for the previous two years
- Social Security Number(s)**
- Employment Information**
- Income:**
 - Paycheck stub(s) from the last 30 days stating your year-to-date earnings
 - W-2s for the previous two years
 - Signed Tax Returns for the previous two years, if some or all of your combined income is derived from bonuses, commissions, dividends, interest, retirement or self-employment.
- Liquid Assets:** Bank statements from the previous two months for all checking and savings accounts.
- Other Assets:** Statements from the previous two months for stocks, bonds and other securities, if these are to be used toward your down payment.
- Liabilities:** Creditor name and outstanding balances for all liabilities including notes payable, other mortgage loans, credit cards, school loans, auto loans, etc.
- Other Liabilities:** If you are obligated to pay child support or alimony, please provide evidence of the court order.
- Real Estate Owned:** Property address, market value, outstanding liens, rental income, mortgage payments, taxes, insurance and maintenance dues.
- Bankruptcy Papers:** If you have declared bankruptcy within the past ten years, please provide a copy of all bankruptcy schedules, including discharge papers.
- Purchase Contract:** (if property has been selected)

WHY DO I NEED TO PROVIDE SO MUCH INFORMATION?

The information provided on the application form allows the lender to review your credit worthiness, income and expenses to determine your ability and willingness to repay the mortgage. As a rule of thumb, no more than 28% of your gross monthly income should be used for your mortgage payment (principal, interest, real estate taxes, hazard insurance, owners' association fees and mortgage insurance premium). For Federal Housing Administration (FHA) loans, this figure is not to exceed 29% of the homebuyer's gross monthly income. With loans guaranteed by the Veterans Administration (VA), lenders measure prospective homebuyers with "Residual Income," or the monthly income minus expenses. The remainder is then measured against geographical and family size data to qualify the borrower.

In addition, no more than 36% of your gross monthly income should be going toward your mortgage payment plus all other monthly credit obligations (car loans, school loans, credit card obligations, alimony, child care, etc). For FHA loans, this figure should not exceed 41% of gross income. Remember, the 28/36 % guidelines are only a rule of thumb; a lender may be able to extend those ratios under special circumstances.

LOCK-IN AND INTEREST RATE

Once you apply for a mortgage, you have the opportunity to lock in a rate, which guarantees that rate for a limited time (usually 60 days), even if rates rise.

Interest rates for mortgage loans change on a daily basis, tracking the US Treasury Bond market. You will need to call a lender daily to find out the most current rate. If you are unsure about "locking" in on an interest rate, you may "float", or hold off locking in, until you are comfortable about the rate.

When or if you lock in your rate is your responsibility. You cannot change your mind once you lock your rate unless you are willing to forego the amount of money paid to lock the rate- usually one point.

CREDIT

Lenders order credit reports to review an individual's payment history with various credit sources (i.e., credit cards, auto loans, etc.) Payment record, bankruptcy, judgements, or other financial items of public record are of interest to the lender.

Lenders may ask for a letter of explanation for any discrepancies that are reflected on the credit report. Discrepancies may include late payments, judgements, bankruptcy and credit inquiries.

It is important to establish credit and maintain good credit. If you have not established credit in the form of credit cards or other loans, you can provide documentation on your rental history, utility bills, rental/lease programs, or any other form of payment that is completed on a monthly basis. This allows the lender to see that you have made payments on a regular basis.

UNDERWRITING

Your loan package, which consists of your application and all supporting documentation, (i.e., income, credit report, bank statements, appraisal, etc.), is submitted to the underwriting department for loan approval. The underwriter analyzes the entire package for credit risk and, if there are no problems, will issue an approval within 24 hours of receipt.

If there are some questions or issues that arise, the underwriter will list the items that are necessary for them to complete the review of the loan package.

Once the loan is approved, a commitment letter stating the mortgage amount you have been qualified for, and any conditions that may have to be completed at closing, will be sent to you.

CLOSING

Closings take place either at a title company's or an attorney's office, a real estate office, registry of deeds, or a place mutually agreed upon, depending on the state in which you live. Working in conjunction with your real estate agent or builder, you will need to arrange your closing with either the title company or attorney.

Prior to the closing you will need to get hazard insurance. A paid receipt of this insurance will need to be brought to the closing.

Your mortgage lender will let you know the amount that is needed to cover closing costs. You will also need to bring a cashier's check to cover these expenses.

At closing, you will sign all the documentation that is required. At that time, cash will be disbursed to the appropriate individuals and you will be the owner of your new home!

UNDERSTANDING THE BASICS

CLOSING COSTS

What Are They?

Closing costs are fees charged by the mortgage lender and other service providers. Some of these charges include the mortgage loan origination fee, credit report fees, discount points, land survey, appraisal, title insurance premium, etc. A glossary of mortgage terms has been included in this packet for your review.

Who Pays Them?

These costs are usually paid by the buyer; however, local customs vary and it is possible to have an agreement where the seller pays some or all of the closing costs.

Your exact closing costs will depend on where you live, how much you are borrowing, how you finance your mortgage, and your closing date. Your Loan officer can review your specific situation and provide you with an estimate of your closing costs. Remember that the closing costs are in addition to your down payment.

PRE-PAID EXPENSES

Pre-Paid expenses are those costs that are required to be paid by the lender in advance. These costs include:

- ❑ **Interim interest on the mortgage loan:** Lenders usually require the borrowers to pay interest that accrues on the mortgage loan from the date of closing to the beginning of the period covered by the first monthly payment. Since interest is paid in arrears, a mortgage payment made in June actually pays for interest accrued in the month of May. Because of this, if your closing date is scheduled for June 15, the first payment is due August 1. The lender will calculate an interest amount per day that is collected at the time of closing. This amount covers the interest accrued from June 15 to July 1.

- ❑ **Mortgage insurance premium:** Private mortgage insurance is usually required when your down payment is less than 20% of the purchase price. The premium may cover a specific number of months, a year in advance or the total amount. Speak with your loan officer to review your mortgage insurance options.

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- ❑ **Hazard insurance premium:** This premium prepayment is for insurance protection for you and the lender against loss due to fire, windstorm, and natural hazards. The premium paid at closing usually covers a one-year insurance policy.

 - ❑ **Reserves deposited with the Lender:** Reserves, also known as “escrow” accounts, are funds held by the lender for future payment for recurring items such as real estate taxes, assessments, hazard insurance and mortgage insurance. Lenders usually require you to pay an initial amount for each of these items to start the reserve account at the time of closing.

Your mortgage payment is comprised of principal and interest, real estate taxes, hazard insurance and mortgage insurance (if applicable). The dollars contributed for taxes, hazard insurance, and mortgage insurance are deposited into your escrow account. When annual taxes and the insurance premiums come due, the lender will pay the invoices. You will need to forward these invoices to your lender for payment.

APPRAISAL

A common perception is that an appraisal is an inspection of the property; however, in truth, an appraisal is really an opinion of value. The appraiser determines the market value of the house you have chosen based on its condition and the selling price of comparable homes recently sold in the area. Most mortgage lenders will require an appraisal of the property before they agree to extend a loan to finance it.

An appraiser should not be expected to uncover a home’s defects—that is the job of an inspector. For a fee, a qualified inspector will examine the home you have chosen. An inspection includes an evaluation of the home’s plumbing, electrical work, appliances, furnace and/or air conditioner, roof and structural stability.

DOWN PAYMENT

When you borrow money for a home, a lender will ask you to contribute some of your own money toward the purchase of the home. This is referred to as your down payment. A lender will usually require a down payment between 5% and 20 % of the asking price for the home. FHA and VA loans require smaller down payments (0-5%).

Conventional loans that have less than a 20% down payment require private mortgage insurance (PMI), for which you will pay a premium for the first year and an additional

monthly fee in subsequent years or until your principal investment is 20% of the purchase. FHA loans have a similar insurance called the Mortgage Insurance Premium (MIP), and VA has a fee for similar purposes called a Funding Fee.

There are a wide variety of loans that require little or no down payment. Please speak with a loan officer for more information.

PRIVATE MORTGAGE INSURANCE

What is Private Mortgage Insurance (PMI)?

Private mortgage insurance is insurance that protects your lender from loss if you stop making your mortgage payments. You pay the premiums for private mortgage insurance.

Why Do I Need Private Mortgage Insurance?

Even if you have a good credit rating, you need private mortgage insurance if you make a down payment of less than 20%. A lender doesn't make a loan to any borrower who is likely to default on the mortgage loan, but defaults occur because no one can predict future circumstances. And without mortgage insurance, the lender could be subject to considerable financial loss. To limit the risk, private mortgage insurance is required for all conventional loan with less than a 20% down payment.

TITLE INSURANCE

What Is Title Insurance?

Title insurance is an insured statement of the condition of your ownership rights, or "title," to a certain piece of property. A title insurance policy describes your property in detail as well as any litigation there may be to your use and ownership. Most importantly, a title insurance policy guarantees that the property you are purchasing is free of undisclosed liens, confusion in the rights of ownership and other "clouds on the title." In short, it guarantees your ownership of the property you purchased!

What Is a Title Search?

Before a policy is issued, the title insurance company conducts an extensive search for "matters of public record" that affect title to the property. Upon completion of this investigation the title insurance company issues a Preliminary Commitment for Title Insurance. This includes information regarding matters which affect the title to the property. Final insurance is provided at the closing to protect both the owner and the lender (if a mortgage is involved).

What Does Title Insurance Cover?

If, after you purchase your home, a "flaw" (a problem that could affect your right to own the property in title) is discovered, the title insurance company generally agrees to:

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- Defend your title in the courts, as insured, at its own expense
 - Correct or clear the title when possible
 - Promptly pay you for your loss in the event of an unsuccessful defense of your title

Policies differ, but some things are standard exceptions to a title insurance policy, such as the unpatented mining claims, water rights, Indian tribal regulations, and reservations in U.S. patents.

How Much Does Title Insurance Cost?

Unlike other forms of insurance, the title insurance premium is paid only once. The policy has a perpetual term and provides coverage for as long as you are in a position to suffer a loss. Furthermore, the coverage cannot be canceled by the company.

Premium rate is based upon the amount and type of coverage requested, and some companies discount their rates based upon previous insurance. Each company must file a schedule of rates with the State Insurance Commissioner who regulates the activities of the industry.

HAZARD INSURANCE

Hazard insurance is required for all mortgages as it protects your home in case of fire, theft, vandalism, wind, etc. If your home is damaged by fire how would you rebuild it? Hazard insurance assists you in circumstances such as this. It is your responsibility to maintain hazard insurance on your property at all times for at least the principal balance of your mortgage loan.



GLOSSARY OF MORTGAGE TERMS

Adjustable Rate Mortgage (ARM): A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

Amortization: The systematic and continuous payment of an obligation through installments until the debt has been paid in full.

Annual Percentage Rate (APR): A term used in the Truth-in-Lending Act to represent the percentage relationship of the total finance charge to the amount of the loan. The APR reflects the cost of your mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes, in addition to the interest rate loan discount points and fees, mortgage insurance.

Application: A printed form used by a mortgage lender to record necessary information concerning a prospective mortgage.

Application Fee: A sum of money paid towards estimated initial mortgage processing expenses such as appraisal and credit report.

Appraisal: A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

As Separate Property: Ownership in real property which is to be specifically

excluded from community property.

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

Assessment: A charge against a property for purposes of taxation. This may take the form of a levy for a special purpose or a tax in which the property owner pays a share of the cost of community improvements according to the valuation of his or her property.

Borrower: A person (also known as Mortgagor) who receives funds in the form of a loan with an obligation to repay principal with interest.

Buydown: A payment to the lender from the seller, buyer or third party, causing the lender to reduce the interest rate.

Cash to Close: Liquid Assets that are readily available to be used to pay the closing costs involved in a closing of a mortgage transaction.

Closing: The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale and loan transaction.

Closing Costs: Money paid by the borrower in connection with the closing

of a mortgage loan. This generally involves an origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as taxes and insurance escrow payments.

Closing Statement: A form used at closing that gives an account of the funds received and paid at the closing, including the escrow deposits for taxes, hazard insurance, and mortgage insurance.

Co-Borrower: Additional borrower(s) whose income contributes to qualifying for a loan and whose name(s) appears on all documents with equal legal obligations.

Collateral: Property pledged as security for a debt, such as the real estate pledged as security for a mortgage.

Commitment (Loan): A binding pledge made by the lender to the borrower to make loan, usually at a stated interest rate within a given period of time for a given purpose, subject to the compliance of the borrower to stated conditions.

Commitment Fee (Loan): Any fee paid by a potential borrower to a lender for the lender's promise to lend money at a specified rate and within a given time.

Conforming: A mortgage loan that conforms to regularity limits such as loan-to-value ratio, term and other characteristics.

Conforming Loan:

Conventional home mortgages eligible for sale and delivery to either the Federal National Mortgage Association (FNMA) of the Federal Home Loan Mortgage Corporation (FHLMC). These agencies generally purchase traditional fixed rate level payment first mortgages up to loan amounts mandated by Congressional directive.

Conventional Mortgage: A mortgage not obtained under a government insured program (such as F.H.A. or V.A.).

Credit Report: A report detailing an individual's credit history.

Deed of Trust: An instrument used in many states in place of a mortgage. Property is transferred to a trustee by the borrower (trustor), in favor of the lender (beneficiary) and reconveyed upon payment in full.

Default: The failure to perform an obligation as agreed in a contract.

Delinquency: A loan payment that is overdue but within the period allowed before actual default is declared.

DeMinus PUD: A PUD in which the common property has less than a 2% influence upon the value of the premises. The 2% rule of thumb is calculated by dividing the dollar amount of amenities by the total number of units. Also see PUD.

Deposit: A sum of money given to bind a sale of real estate. Also known as earnest money.

Depreciation: A loss of value in real property brought about by age, physical deterioration, functional or economic obsolescence.

Discount Point: Amount payable to the lending institution by the borrower or seller to increase the lender's effective yield. One point is equal to one percent of the loan amount.

Discounted Loan: When the note rate on a loan is less than the market rate, the lender requires additional points to raise the yield on the loan to the market rate.

Earnest Money: A portion of the downpayment delivered to the seller or an escrow agency by the purchaser of real estate with a purchase offer as evidence of good faith.

Equal Credit Opportunity Act (ECOA): A Federal law requiring lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, sex, age, marital status, receipt of income from public assistance programs or past exercising of rights under the consumer Credit Protection Act.

Equity: The ownership interest that portion of a property's value over and above the liens against it.

Escrow: A procedure whereby a disinterested third party handles legal documents and funds on behalf of a seller and buyer.

Fair Credit Reporting Act (ECRA): A Federal law which requires a lender who is rejecting a loan request because of adverse credit information to inform the borrower of the source of such information.

Federal Home Loan Mortgage Corporation-FHLMC (FREDDIE MAC): A corporation authorized by Congress. It purchases residential mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration as well as conventional home mortgages. It sells participation certificates whose principal and interest are guaranteed by FHLMC.

Federal National Mortgage Association-FNMA (FANNIE MAE): A tax-paying corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration as well as conventional home mortgages.

First Mortgage: A real estate loan that has priority over any subsequently recorded mortgages.

Fixed Interest Rate: An interest rate which does not change during the loan term.

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

Gift Letter: A written explanation signed by the individual giving the gift stating, "This is a bona fide gift and there is no obligation expressed or implied to repay this sum at any time."

Gross Monthly Income: Total monthly income earned before deductions.

Hazard Insurance: A contract whereby an insurer, for a premium, undertakes to compensate the insured for loss on a specific property due to certain hazards.

High-Ratio Loan: Mortgage loans in excess of 80 percent of the loan amount divided by the lower of the sales price or appraised value.

Homeowners Association Dues: The fees imposed by a condominium or homeowners association for maintenance of common areas.

Insured Loans: A loan insured by FHA or a private mortgage insurance company.

Interest: Consideration in the form of money paid for the use of money. Also a right, share of title in property.

Interest Rate: The percentage of an amount of money which is paid for its use for a specified time.

Investment Property: Real estate owned with the intent of supplementing income and not intended for owner occupancy.

Lien: A legal claim or attachment against property as security for payment of an obligation.

Loan-To-Value Ratio: The ratio between the amount of a given mortgage loan and the lower of sales price or appraised value.

Market Value: The highest price which a ready, willing and able buyer would pay and a willing seller will accept, both being fully informed under no pressure to act. The market value may be different from the price a property can actually be sold for at a given time (market price).

Maturity: The termination or due date on which final payment on a loan must be paid in full.

Monthly Payment: Usually, the amount of PITI (principal, interest, taxes, and insurance) paid each month on a mortgage loan.

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

Mortgagee: The lender in a mortgage transaction.

Mortgage Insurance Premium (MIP): The consideration paid by a mortgagor (borrower) for mortgage insurance-either to the FHA or to a private mortgage insurer.

Mortgage Note: A written promise to pay a sum of money at a stated interest rate during a specified term. The note contains a complete description of the conditions under which the loan is to be repaid and when it is due.

Mortgagor: The borrower in a mortgage transaction who pledges property as security for a debt.

Non-Conforming: A mortgage loan that does not conform to regularity limits such as loan-to-value ratio, term and other characteristics.

Non-Conforming Loan: Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics or underwriting guidelines.

Occupancy: The use of a property as a full time residence, either by the title holder (owner-occupancy) or by another party through a formal agreement (rental).

Origination Fee: The amount charged for services performed by the company handling the initial application and processing of the loan.

Percentage Point: One percent of the loan amount or a measure of the interest rate.

PITI (Principal, Interest, Taxes, and Insurance): The most common components of a monthly mortgage payment.

Preliminary Title Report:

The results of a title search by a title company prior to issuing a title binder or commitment to insure clear title.

Primary Residence: A residence which the borrower intends to occupy as the principal residence.

Principal Balance: The remaining balance due on a debt.

Private Mortgage

Insurance: Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default.

Processing: The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

PUD (Planned Unit Development): A planned combination of diverse land uses, such as housing, recreation, and shopping in one contained development or sub-division. A major feature of a PUD includes areas of common land for use by the housing unit owners; the association of unit owners generally owns, pays fees, and maintains the common areas. Also see DeMinus PUD.

Purchase Contract (Agreement/Offer): An agreement between a buyer and seller of real property, setting forth the price and terms of the sale. Also known as a sales contract.

Real Assets: Real estate or real property owned by an individual or business.

Real Estate Settlement Procedures Act (RESPA):

A Federal law requiring lenders to provide home mortgage borrowers with information on known or estimated settlement costs. It also establishes guidelines for escrow account balances and the disclosure of settlement costs.

Real Property: Land and that which is affixed to it.

Refinancing: The repayment of a debt from the proceeds of a new loan using the same property as security.

Satisfaction of Mortgage: The recordable instrument issued by the lender verifying full payment of a mortgage debt.

Second Home (Vacation Home, Weekend Home): A residence other than the borrower's primary residence which the borrower intends to occupy for a portion of each year. Must be suitable for year-round occupancy.

Secondary Mortgage Market: A market where existing mortgages are bought and sold. It contrasts with the primary mortgage market where mortgages are originated.

Security: In lending, the collateral given, deposited, or pledged to secure the payment of a debt.

Settlement Services:

Services provided by the lender at the closing of a loan.

Survey: The measurement and description of land by a registered surveyor.

Term: The time limit within which a loan must be repaid.

Title: The legal evidence of ownership rights to real property.

Title Insurance Policy: A contract in which an insurer, usually a title insurance company, agrees to pay the insured party a specific amount for any loss caused by defects of title on real estate in which the insured has an interest as purchaser, mortgagee, or otherwise.

Title Search: An examination of public records to disclose the past and current facts regarding the ownership of a given piece of real estate.

Truth-in-Lending Act: A federal law requiring a disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms of financial institutions.

Underwriting: Analysis of risk and setting of an appropriate rate and term for a mortgage on a given property for given borrowers.