

# Homebuyer's Handbook

There is more to your mortgage than the close!



Purchasing a new home can be exciting, fulfilling, stressful and challenging all at the same time. Typically the largest purchase an individual will make, the home purchase symbolizes the American dream and the opportunity to make a significant investment in you and your family’s future.

This handbook is a playbook that helps guide a homebuyer through the mortgage process from the beginning – selecting a lender – to the end – the mortgage closing.

It is designed to help you through these steps and give you a better understanding of what goes on behind the scenes with your lender. Each loan has its own unique properties, because no single home or borrower is the same. However, the loan process by which your loan application is taken, processed, approved and closed is standard. If you have additional questions, please contact us and we’ll be happy to provide any information you need.

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## Step by Step...The Buying Process

- Find a lender you can trust**    **The first step...**  
In the homebuying process is to find an experienced lender that you can trust and begin the loan pre-approval process. This guarantees that you will have a trusted loan advisor with you throughout the process of buying your home. Your best solution is to get a referral.
- Look for a home**    **The next step...**  
Is to find an experienced real estate agent and look at various homes. If you do not already have a trusted agent, your lender can recommend one, or you may wish to get a referral from a friend, coworker or family member.
- Your offer**    **Be careful – this is a BIG step...**  
When you find your dream home, you should present a competitive offer immediately. Your agent should have extensive experience in contract negotiations. He or she will ensure you get just what you want for a fair price – a transaction in your best interest.
- The contract**    **We are starting to jog now...**  
When the seller accepts your offer, you “go under contract.” You want to make sure every detail is handled accurately and immediately. Your lender and real estate agent will work together to ensure an accurate, timely and predictable closing.
- The mortgage loan**    **Hold on, we are at full speed...**  
Once the offer is accepted, it is important to provide any additional documentation and lock in your interest rate as expeditiously as possible. The lender orders the title work and appraisal for the loan file and then submits the loan to the underwriter for final loan approval. A delay in delivering paperwork can delay the closing.
- Inspections**    **You're on the “HOME” stretch!**  
Final details are handled and inspections are performed to ensure the property is “perfect” for you. The lender orders the title work and appraisal for the loan file. Contract details are further negotiated by your agent, and we head to closing!
- Now it is YOURS!**    **The next step will be into your new home...**  
Be prepared to bring your checkbook to the closing procedure – your next steps will be over the threshold of your new home!

## The Value of Homeownership

The American Dream is grounded upon the ideal of homeownership. Having the opportunity to purchase a new home – the foundation of your own American dream – is an exciting and intimidating step. It is important to understand the process and have a valuable team (real estate agent and mortgage lender) to guide you through the process to ensure a smooth, accurate and predictable closing. Owning a home provides you with some significant value beyond being the first step in your dream.

### Income Tax Savings

Upon becoming a homeowner, the interest paid on your mortgage is tax-deductible on your personal income taxes. This reduces your tax liability to the IRS, saving you thousands of dollars in taxes annually. This mortgage interest deduction is typically the largest tax deduction enjoyed by individuals.

### Equity

Renters are paying their landlords' mortgages and thereby building the equity in the property for those landlords. Homeowners are building their own equity – the difference in the current property value and the balance of the mortgage on the home – establishing asset value in the property and making positive growth toward increasing their net worth.

### Privacy, Comfort, Security

Since this country was founded, homeownership has represented the American dream. You may have thought you could not afford to have your own piece of this dream, but an experienced and focused mortgage team, along with your real estate agent, can show you how you can make this dream a reality for you and your family.

### Net Worth Growth

With continued and timely payments on the mortgage, and reasonably steady appreciation in the property value, you will accumulate equity in your new home. This equity can be liquidated in the future as needed to address financial needs like college tuition, purchase of other properties, home improvement or consolidation of other higher-interest-rate debt.

## See Your Mortgage Consultant BEFORE You Buy

Before you begin the exciting process of shopping for a new home, you need to discuss your homeownership plans and financial position with a mortgage professional.

You would not shop for a new TV, computer or automobile until you knew that you could afford the purchase; however, many homebuyers begin shopping for a new home, consulting with a real estate professional and viewing properties before they know if they can afford the home. Don't make this costly mistake. Consulting with your mortgage professional **before** looking for a home will save you time, energy and frustration by understanding the answers to the following questions:

### How much can I afford?

A consultation helps you avoid being disappointed if you don't qualify for as much as you had hoped.

### How much will I need at closing to purchase the new home?

You will know approximately how much money you will need for down payment on the loan structure that is best for you, identify closing costs that will be applicable for that loan program, and discuss which of these costs may be negotiable for the seller to pay on your behalf.

### What is the monthly mortgage payment I will be paying?

You will have a general idea of the amount of your monthly principal, interest, taxes and insurance payment; however, the taxes and insurance are not known until you have a specific property identified.

### What loan programs do I qualify for and which one is right for me?

There are a wide variety of loan programs, all with specific details, closing costs, rates and underwriting guidelines that are constantly changing. A mortgage professional can guide you through this wide array of products and match you with the specific loan and structure that will best suit your financial position and goals.

## Choosing the Right Lender

Your primary focus should be that you are working with an experienced professional who is employed by a well-established, credible company. The largest purchase of your lifetime is much too important to be left in the hands of an inexperienced loan officer or questionable company.

Even a detail like communication style and convenience is an important factor in selecting the right lender. Some homebuyers prefer the personal touch of working with a local lender with whom they can meet in person to discuss their questions and concerns while walking them through the loan selection and process. Others desire the convenience of online interaction like an application completed online and correspondence via email and fax. It is important to determine if your lender has the capacity to meet your desired communication preferences.

As your loan proceeds through the various steps of loan origination, processing, underwriting and closing, your confidence and comfort with your selected lender should grow as they display their experience and expertise. But how do you know if you are dealing with the right loan officer and company in the beginning? The best way is to request a referral from those you trust and then ask the right questions of the loan officer to determine his or her expertise and approach to lending.

The following are a few of the questions that you should ask of each potential mortgage lender.

### **1. Are you a mortgage banker or mortgage broker?**

There are very distinct differences between a mortgage banker and mortgage broker that can affect every step of the loan process. A mortgage banker lends from its own funds and will most often have in-house processing, underwriting, and closing departments. A mortgage broker is a “mortgage salesperson,” but the broker’s company will not be lending you its own funds. The mortgage broker has a variety of lenders that may provide funding for your loan. The selected lender will complete your loan processing, underwriting, and closing documents.

In addition, the customer will not be aware of the actual rate, costs and points charged until the broker has selected a lender for the specific loan offered. New changes in regulations mean that commissions can no longer be hidden in the rates and many consumers may find that brokers actually cost them more than a lender when they are able to compare them side by side.

**2. I understand that the Good Faith Estimate is just that, an estimate; however, can you tell me which items are most likely to change and to what degree?**

It is the loan officer's responsibility to provide you with the most accurate Good Faith Estimate possible. As of January 1, 2010, the government has standardized this Good Faith Estimate and made the lender responsible for the accuracy of many of the fees and charges on this document. There are specific dates at the beginning of the Good Faith Estimate which provide guidance as to how long they can honor the rate and fees provided on the Good Faith Estimate. Please be sure you understand whether or not your rate has been "locked" with that lender – meaning the lender is committed to close your loan at that rate – or if the rate is subject to change prior to closing. The loan officer should explain to you which items on the estimate are charged by the lender and which are charged by third parties (title company, appraiser, surveyor, etc.). In addition, the loan officer should provide you with an explanation of which items cannot change, which items can change within a 10% tolerance and which items are not subject to any tolerance for change.

In addition, make sure that you are aware of any origination charge or points that are being charged related to your loan rate. The origination charge is a total of all lender fees, which used to be itemized on older GFE formats, and should be inclusive of all closing costs related to the lender including the wholesale lender fees with a mortgage broker. Make sure your financial partner explains every line of the new GFE to your satisfaction. If they are not willing to take the time, then you probably do not have a good lender.

**3. What financial products determine mortgage rates?**

The only correct answer to this question is "mortgage-backed securities" or "mortgage bonds." The 10-Year Treasury Note is not the correct answer, although this financial instrument may follow the same trend as mortgage rates. However, it is not uncommon for the 10-Year Treasury Note and mortgage rates to move in opposite directions. If your lender doesn't know, then they are not very experienced.

**4. Are there any economic reports or events in the near future that may cause mortgage rates to move?**

Various economic reports and events can cause mortgage rates to move in either direction. An experienced, professional lender will know which of these will affect mortgage rates, although it would be impossible for to predict the outcome of these reports or events and the resulting mortgage rate movement. Recent broker commission regulations that went into place April 1, 2011, for example, may contribute to raising rates as some brokers leave the industry.

**4. When the Fed “changes rates,” what does this mean, and how does this impact mortgage rates?**

The Fed (FOMC – Federal Open Market Committee) is the policy-setting panel of the Federal Reserve Board. The Fed can only control two specific rates, the “Federal Funds Rate” and the “Discount Rate.” Both of these rates are very short-term rates that influence bank lending rates for credit cards, consumer loans, credit lines, etc. It is common for mortgage rates to move in the opposite direction of Fed rate adjustments immediately following a change. The Fed adjusts rates to combat inflation, which is typically the worst enemy of the bond market on which mortgage rates are based.

**5. Will your company service my loan?**

The company that services your loan will be your ongoing mortgage relationship after the loan closing. This servicer is responsible for the collection of your monthly payments, the management of your escrow account and the issuance of those funds for insurance and tax payments, the delivery of required annual interest statements (1098 Form), and is the customer service contact for any questions or issues related to the loan.

It is important for you to know if the company you choose as your mortgage lender will be servicing your loan after the closing. If not, you will have no choice of whom your loan servicing will be sold to or when it is sold. Therefore, you will have no idea who will be providing the ongoing customer service related to your loan after the closing or even what part of the country your mortgage payment will need to be sent in the future.

Ideally you want to choose a lender who will also service your loan. You will get better service before, during and after the close of your loan if your relationship will be in place for 15 or 30 years.

If you are in North Texas or in the area of Michigan between Flint and Detroit (including those two cities), please feel free to contact one of our mortgage experts at the numbers below with any questions. Unlike a mortgage broker who shops your loan around among various banks, Guardian Mortgage Company is a mortgage banker that services its own loans through the entire relationship of the loan. Our loan originators will ask you questions that help determine what kind of loan is best for your situation.

## About Us

Guardian Mortgage Company, Inc. has been in the mortgage lending and servicing business since the 1960s. It is an independently owned and managed company that specializes in origination and servicing of residential mortgages. For more information about Guardian Mortgage Company Inc., you can reach one of our mortgage experts through the contact details below:

Texas – (800) 331-4799

Michigan – (800) 237-7905

Apply online: [www.guardianmortgageonline.com/](http://www.guardianmortgageonline.com/)

Free handbook: [scr.bi/guardianhandbook](http://scr.bi/guardianhandbook)

### **Additional:**

Company: Guardian Mortgage Company, Inc.

Country: United States

Website: [www.facebook.com/GuardianMortgageCompany](http://www.facebook.com/GuardianMortgageCompany)

## The Mortgage Loan Process

### Loan Application



- Loan application is completed and signed
- Loan officer speaks with borrower to match a mortgage product with needs
- Credit report is pulled and reviewed
- Rate is locked
- Borrower provides income verification items
- Borrower provides bank statements to verify the cash needed for the down payment and closing costs

### Loan Setup & Processing



- The loan is entered into the processing system
- Employment verification is completed
- The residential appraisal is ordered
- The title work order is sent to the title company
- The title commitment, other title work and any required loan payoff figures for existing loans is requested by title company
- The required disclosures are sent to borrower
- Homeowners Insurance Info Sheet is sent to borrower
- When processing is complete, the file is sent to the Underwriting Department

### Underwriting



- The loan file is reviewed to ensure compliance with loan program and agency guidelines
- The residential appraisal is reviewed for accuracy
- The borrower is evaluated for credit risk
- The underwriting decision is made:  
Approved / Approved with Conditions / Rejected
- The underwriter specifies any conditions for closing and closing instructions for title company
- When underwriting is complete, the file is sent to the Closing Department

### Closing Document Preparation



- Loan file is reviewed with special attention to the conditions and closing instructions from the underwriter
- The homeowners insurance information and tax certificates are reviewed
- The closing date and time is confirmed with the title company
- The closing documents are prepared and delivery to the title company is arranged

### Loan Closing

- Closing documents and instructions are reviewed by the title company
- HUD-1 Settlement Statement and any additional required documents are prepared for the closing by the title company
- Borrower is provided a copy of the HUD-1 Settlement Statement, which has the final closing figures, typically 24 to 48 hours prior
- Borrower obtains a cashier's check made out to the title company, or wires funds per the title company wiring instructions
- Borrower arrives at the scheduled time, reviews and signs the closing documents, and receives copies of all signed documents

## Pre-Approval vs. Prequalification



Think of a loan as having two parts: 1) your credit profile and 2) the home and its value. Obtaining a pre-approval gets the “credit” part of the loan out of the way. In addition, a pre-approval can help you negotiate a better price with the seller since being pre-approved is halfway through the loan process!

With most lenders, including Guardian Mortgage, a pre-approval is a free, no-obligation process whereby you are given up-front initial loan approval for a specified loan amount. Upon being pre-approved for the loan, you will be provided with an Approval Letter that offers real estate agents, builders and sellers proof that you have been pre-approved for the loan amount.

There are very important differences between a prequalification and a pre-approval. A prequalification can be completed over the phone by answering a few questions and pulling a credit report. This is not a pre-approval and carries no more weight than if you pulled your own credit report and used an online payment calculator to determine the payment for the desired loan amount.

### What is required to obtain pre-approval?

In order to grant pre-approval for the loan amount you desire, your loan officer will need to evaluate your credit history, calculate your housing and debt ratios, verify your income, and confirm you will have the down payment and cash needed to close available at closing. Please remember, the pre-approval is only as good as the information you provide and is subject to the lender's verification of that information during the loan process. The following documents will be required to complete the pre-approval process:

- Completed Uniform Residential Loan Application (Form 1003)
  - Upon completion of the Loan Application, the lender will pull a tri-merge credit report to verify the applicable credit scores and credit history
  - The lender is required to provide you with these credit scores used for loan qualification and approval
- The most recent pay stubs for each borrower that reflect the last 30 days' year-to-date earnings
- The most recent 60 days of bank statements from liquid asset accounts and retirement account
- W2s for each borrower covering the previous two years

- If you are self-employed, retired or if more than 25% of your income is from commission or bonus payments, then you will need to provide all pages and schedules for your two most recent personal tax returns
  - If you have filed an extension on the most recent tax return, the lender will require a copy of that extension form
  - In addition, the lender will still require all pages and all schedules for the two most recent personal tax returns that have been filed with the IRS
- If you hold a 25% ownership position in your employer, the lender may require all pages and all schedules of the company tax returns for the last two years, a current Profit & Loss Statement and Balance Sheet
- In addition, dependent upon your specific financial position, the lender may require any of the following, if applicable:
  - All pages of a recorded divorce decree
  - All pages of any lease agreement on investment properties
  - A credit explanation letter for derogatory credit items



Please understand that the pre-approval process can be a very quick event. However, you must be sure to respond promptly to the lender's request for information. You may need to contact your employer or others who need to provide the lender with information required for the loan approval.

Like any other banking entity or lender providing financing (personal or commercial), mortgage lenders look at the "four C's":

- **Capacity** – Can you repay the debt? How much you owe, how long you have worked, how much you earn, how many dependents you have. Do you pay alimony or child support and what are your other obligations?
- **Credit History** – Will you repay the debt? How much you owe compared to your credit limits, how often you borrow, do you pay bills on time, and do you live within your means? **Stability:** How long have you lived at your present address, and how long have you worked at your present job?
- **Capital** – Do you have enough cash for the down payment and for closing costs? Do you need a gift from a relative, will you have any money left after your home purchase, or will you spend your last penny at the closing to buy the home?
- **Collateral** – Will the lender be fully protected if you fail to repay the loan? Is the property you are buying sufficient to back up your loan?

## How Much Can You Afford?

To understand how much house you can afford, there are a couple of questions to ask and formulas to calculate.

How much do you pay now for housing (either rent or a mortgage)? If you are struggling to make the housing payment each month, then your new housing payment should be less than what you are currently paying. If you have little debt and can easily make your housing payment, then stepping up to a bigger housing payment makes sense.

- **Housing Ratio** – the total home payment (principal, interest, property taxes and homeowners insurance) divided by monthly gross (before taxes) income gives a number that represents what percent of your monthly income is being used toward housing
- **Total Debt-To-Income (DTI) Ratio** – the total home payment plus other installment loan payments, minimum payments to revolving credit accounts, and any child support or alimony payments divided by monthly gross (before taxes) income gives a number that represents what percent of your monthly income is “obligated” toward total debt
- The old rule of thumb used to be that if you kept these ratios to the following guidelines, you could qualify for the home loan:
  - **Housing Ratio** – should be no more than 28% of your monthly gross income
  - **DTI Ratio** – should be no more than 36% of your monthly gross income

These old guidelines have become mostly obsolete with the introduction of automated underwriting systems. These are software programs that analyze a borrower’s ability to repay the loan given the borrower’s credit history, income, current debts, and loan-to-value of the new loan; however, common sense can still override an automated outcome.

With the introduction of automated underwriting systems, borrowers can now qualify for loans where their Housing and DTI ratios are greater than these old rules; however, the borrower’s credit score and amount of money in the bank significantly affect the maximum ratio for each borrower.

A good budget for even the person with superior credit should not be more than 45% of gross income for total debt payments. This leaves the rest of the money to pay income taxes, Social Security taxes, savings, retirement investments, home repairs, utilities, food, clothing, medical bills, vacations, college tuition, etc.

## Credit Scoring

A credit score (also called your FICO® score referring to Fair Isaac Corporation that provides the analytical system used to calculate the score) is designed as a numerical representation of your creditworthiness. Mortgage lenders use credit reports to determine whether you have the ability to pay them back and if you will pay them back. The higher the credit score, the more likely a borrower is to honor the terms of their financial contracts with lenders. Lower credit scores represent more perceived risk of untimely payments or default, which may be translated into higher interest rates to offset that risk.

All mortgage lenders will pull a credit report (called a tri-merge credit report that displays credit history and scores from all three credit bureaus) and use the results of that report for approval and determining the applicable mortgage rate. With more than one borrower, the credit report for all borrowers will be considered.

Mortgage lenders are not credit experts and will typically refer those with lower credit scores to credit restoration or repair companies, whose primary business is to consult and execute credit score improvement plans. In general, for credit improvement and maintenance, you should concentrate on paying your bills on time, paying down outstanding balances, and not taking on new debt in the six months before purchasing a home.

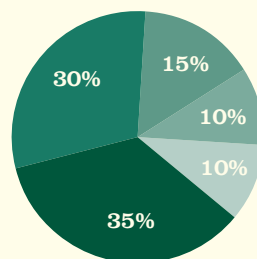
There are five main criteria that make up a credit score:

**30% Available Credit**

your credit limit minus the balance owed tells how much available credit you have

**35% Payment History**

on-time or late payments



**15% Length of History**

how long since account opened

**10% Number of Inquiries**

every time you apply for credit, an inquiry is logged on your credit report

**10% Type of Credit**

mortgages, installment loans, revolving credit cards, etc.)

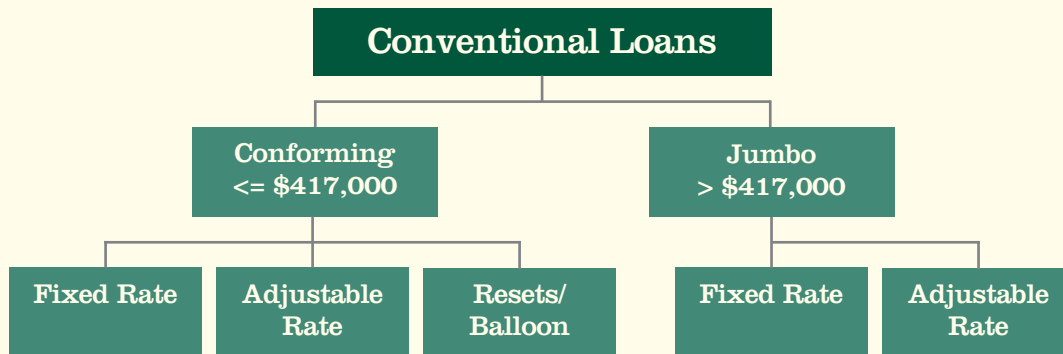
In addition, the credit report provides any bankruptcy, liens or public records filed. If you have any derogatory credit items (late payments, collections, bankruptcy, foreclosures, repossessions, etc.), you will want to prepare an explanation letter to the lender for these items. This letter provides the background on why these derogatory items came about and what you are doing to prevent these issues from arising again. Lenders want to hear that derogatory items on the credit report are isolated events that occurred due to extenuating circumstances.

Credit scores range from 300 to 850 and are commonly broken down into the following categories:

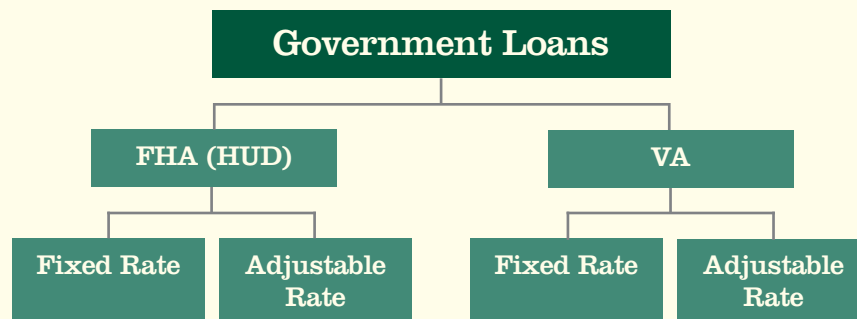
- 740 – 850 = Superior Credit
- 720 – 739 = Excellent Credit
- 700 – 719 = Good Credit
- 680 – 699 = Average Credit
- 660 – 679 = Below Average Credit
- 640 – 659 = Fair Credit
- < 640 = Poor Credit

## Common Loan Types

Conventional loans are not sponsored or insured by government agencies. The lender assumes the full risk with the transaction and the lender's investors define the underwriting requirements for these loans.



Government loans are programs that have been designed to provide more affordable housing. The loans are divided into two main groups: FHA loans (Department of Housing and Urban Development) and VA loans (Department of Veterans Affairs).



## Down Payment

The down payment is the equity you put into the home at the time of purchase by investing your own money into a new home and getting a mortgage loan for the remainder of the purchase price. With a greater down payment you are increasing your equity position and reducing the lender risk, so increasing the down payment can improve your odds of getting approval for the loan.

Most loan programs have a required minimum down payment, but there is no maximum; you can put as much money down as you want. The more money you put down, the lower your loan amount and the lower the monthly mortgage payment.

On a conventional loan, if you provide a down payment of less than 20% (80% LTV), you will be required to pay Private Mortgage Insurance (PMI) or get a “piggyback loan” to cover the difference between your down payment and the 20% required to avoid PMI. These piggyback loans are second-lien loans, with higher interest rates and have separate monthly payments. Piggyback loans are only available to those with excellent to superior credit and are typically structured as:

- 80/10/10 – 80% 1st lien loan / 10% 2nd lien loan / 10% down payment
- 75/20/5 – 75% 1st lien loan / 20% 2nd lien loan / 5% down payment
- 80/15/5 – 80% 1st lien loan / 15% 2nd lien loan / 5% down payment

With rare exceptions, the minimum down payment on a conventional loan is 5%; however, the interest rate is higher when the down payment is lower and vice versa.

For an FHA loan, the required minimum down payment is 3.5%. On a \$200,000 house, the down payment would be \$7,000. Gift money from a family member is allowed. FHA loans have Mortgage Insurance Premium (MIP) up front as well as an annual premium that is collected with the monthly payment. The Up-Front MIP is rolled into the loan, which prevents the borrower from having to pay this amount at closing.

VA loans still allow for 0% down payment (or 100% financing); however, the borrower needs to have at least two of the following before 100% financing can be considered:

- Excellent credit
- Substantial savings
- Low debt-to-income ratio

There are many other loan programs, some national, some state and some lender-specific. Your loan officer will evaluate your individual profile and recommend the best program(s) for your goals.

## Rate Shopping

It is no surprise that shopping for the most competitive loan terms – both a low rate and low closing costs – has always been a primary objective for borrowers. However, this should not be the only determining factor in selecting the mortgage lender. There is a difference between “quoted rates and costs” and the actual rate and costs at closing. In addition, the lowest rate may not always result in the lowest monthly payment and may not be the best financial solution for the homebuyer’s short- and long-term goals.

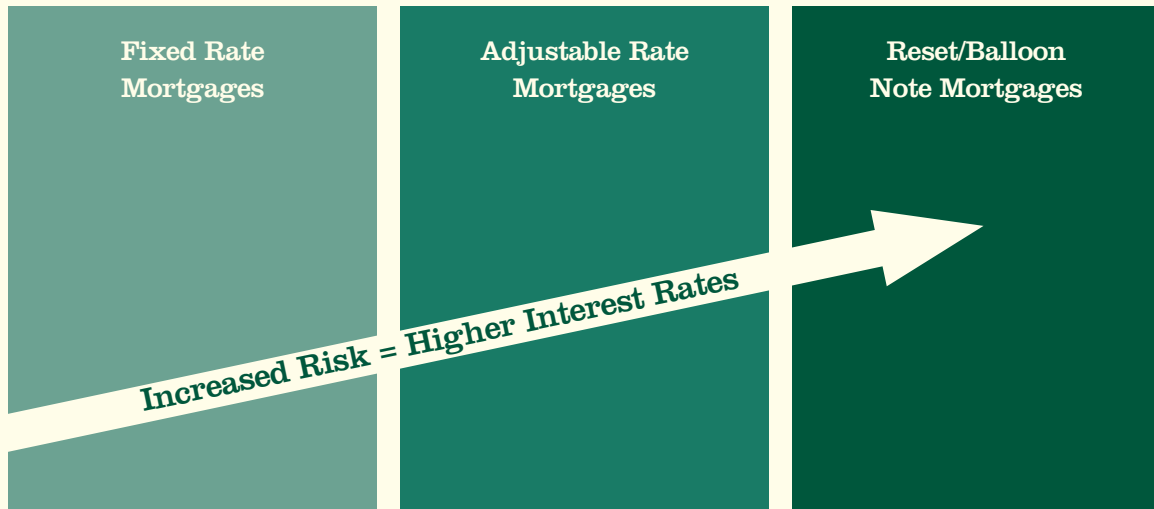
There is a multitude of misleading rate information from a variety of media outlets. TV, radio and print ads often provide quoted rates from days or weeks earlier – which are not valid when the consumer contacts the lenders, as mortgage rates change constantly based on the mortgage-backed securities market. In addition, a variety of online resources are available to consumers for checking local mortgage rates – but these are simply clearing houses for quoted rates which have not been verified for accuracy.

The goal of this rate-focused advertising and marketing is to compel the consumer to contact the lender. Often this focus causes lenders to advertise an artificially low rate with the intent of providing the higher actual rate when the consumer makes contact, blaming market changes and various rate-lock terms. The actual rate for a borrower is determined by a variety of factors, including the amount of down payment, credit score and history, specific loan program and occupancy status. Therefore, the reality of these advertised rates is that they are inaccurate at best and purposely misleading at worst.

The government has taken many steps to ensure that rates are advertised in a manner that includes the sum of the costs charged by the lender. To be compliant with government regulations, lenders must always provide the “real cost” of the financing by including the annual percentage rate (APR) each time an interest rate is quoted in advertising. The APR is calculated by including specific “prepaid finance charges,” which are certain closing costs associated with the lender and the quoted rate.

However, consumers should not be misled into thinking that the APR should be the primary focus of their rate shopping process. Not all lenders calculate the APR with the same prepaid financing charges or interest days, so the APR can be manipulated to make one lender’s loan terms appear more competitive than another. All consumers should diligently review each lender’s Good Faith Estimates and worksheets. The APR should just be one tool in the home shopping and mortgage lender evaluation, not the sole focus.

A useful loan shopping technique can be to ask the lender for their loan terms at a specific rate. For example, if you contact the first lender and receive documentation showing their current rate on the specific loan product is 4.50%, then request the same rate from all the lenders you are comparing. Having each of them send you the documentation and terms required to secure the 4.50% rate for the same rate-lock period will help simplify the loan comparison.



## Points vs. No Points

Home buyers have the option of reducing their interest rate on the mortgage in exchange for an additional cost at the time of closing. The additional cost is called “points,” which is essentially interest paid up front at closing in exchange for a lower interest rate over the term of the loan. For example, 1.00 point is equal to 1.00% of the loan amount, and could reduce the borrower’s rate by 0.25% or more for the entire loan term.

Significant consideration should be paid to the length of time the homebuyer intends to own the home and how long the homebuyer intends to remain on the proposed mortgage. If the borrower has no intention of moving over the next 3 to 5 years and has no intention of refinancing the loan over that same term, then paying up to 1.00 point could be a prudent investment.

For example, let’s imagine that you are purchasing a \$300,000 home and borrowing \$240,000 on a 30-Year Fixed Rate Mortgage. As you evaluate your potential loan terms, the lender offers you the option of paying no points for a rate of 5.00% or paying 1.00 point for a rate of 4.625%. Your principal and interest payment at 5.00% is \$1,288, and the principal and interest payment at 4.625% is \$1,234. Therefore, by investing the additional 1.00 point (\$2,400) in costs at closing, your monthly payment will be reduced by \$54 per month. This is a 44-month cash-flow break-even, so the homebuyer must remain on this loan for a minimum of 3.7 years for the points to be a prudent investment.

During the process of lender selection, points can be a key detail in evaluating the various lenders’ rates. It is critical to check each lender’s documents to determine if they are charging points for the same rate that another lender is offering with no points. A more efficient way of comparing lender offers can be to ask each of the potential lenders to provide their documentation based on a specific rate (i.e., 4.50%) and then review the documents to see if that rate requires points – or what amount of points – from each lender.

In a high interest rate environment, paying points is less likely to be a worthwhile investment, as a future refinance is more likely when lower rates are realized. In a lower interest rate environment, future refinances are less likely, making the investment in points a more realistic benefit.

Given the various rate options, it is critical that the homebuyer work with an experienced and ethical loan officer to evaluate the best possible rate and cost option, given the homebuyer’s short- and long-term financial goals. There is no such thing as a one-size-fits-all approach to mortgage loans, so the advice of a true mortgage consultant can prevent costly rate and cost mistakes.

## Prepayment Penalties

Prepayment penalties are a penalty paid by borrowers to the mortgage lender for early repayment or payoff of the loan balance. The payoff could be penalized in the event of a refinance or property sale. These penalties can prevent a borrower from refinancing to secure lower interest rates, as the cost of the penalty and refinance closing costs would not justify the lower mortgage rate.

Prepayment penalties are a feature of some loan programs to provide the lender with insurance against early default, ensure a guaranteed return, and are traditionally more common with higher-risk loans offered to borrowers with lower credit scores, smaller down payments and higher debt obligations. The bottom line is that prepayment penalties limit the borrower's future financial flexibility by limiting their ability to refinance or sell the home in the future without additional cost.

Interest rates have dropped significantly since 2002. Many homeowners have not been able to take advantage of lowered rates by refinancing because their hands have been tied by a daunting prepayment penalty. The value proposition with prepayment penalties is a lower interest rate in exchange for accepting a prepayment penalty on the loan. Historically, mortgage lenders may push the benefits of a prepayment penalty to secure greater returns from the loan investors. This return is generally a higher commission paid at closing since the investor has a guaranteed penalty that will apply for early payoff. Therefore, it is important for the consumer to consider all loan options, their future financial plans and proceed with caution when prepayment penalties are mentioned.

## Prepayment Advantages

On an 8% mortgage, one extra payment per year will reduce a 30-year maturity to just less than 23 years; a savings of seven years. Here is how each additional month payment per year changes the maturity.

<b>If you make:</b>	<b>Your loan will be paid off in:</b>
One extra Payment per year	22 years, 11 months
Two extra Payments per year	18 years, 11 months
Three extra Payments per year	16 years, 4 months
Four extra Payments per year	14 years, 5 months
Five extra Payments per year	12 years, 11 months
Six extra Payments per year	11 years, 8 months
Seven extra Payments per year	10 years, 9 months
Eight extra Payments per year	9 years, 11 months

## Details of the Purchase Contract

The process of buying a home is often much more complex than the average individual expects it to be, even those who have done it before. On this page we have highlighted a few of the key sections of the contract for the homebuyer.

**Loan Contingency** – This is a specific period of time you are allowed to secure loan approval from the mortgage lender based on the terms you have outlined in the contract. The terms of this loan contingency may be included on a document called the “Third-Party Financing Addendum.” This loan contingency is typically between 15 and 21 days, depending on what you and your real estate agent have negotiated on your behalf in the contract. The earnest money deposit that you put into an escrow account at the time the offer was accepted may not be refunded once the loan contingency has expired. According to the terms of the standard contract, if the loan contingency has expired and you fail to close the purchase transaction, you can lose your earnest money deposit and would not have loan-related issues as the reason for the nonperformance. Formal pre-approval will help eliminate such risk related to the loan contingency.

**Home Inspection Contingency or “Option Period”** – Based on the terms of the contract, you and the seller will negotiate a period of time sufficient to complete a home inspection and any subsequent inspections (elevation survey, structural engineer, plumber and electrician) as required from the details of the general home inspection. A licensed residential inspector should be contracted with to complete the general home inspection and provide the home inspection report.

Upon completion of the home inspection report, the residential home inspector will review the details of this report with you to ensure you have a complete understanding of the results. The focus of the report should be on any material defect or conditions of the property that could affect the property value. Since you did not have knowledge of these defects at the time the offer was made, you and your real estate agent will contact the sellers and their agent concerning adjustments to the purchase price or a seller contribution toward your closing costs to account for the defects and issues discovered in the inspection. If the home inspection contingency or option period has expired, you will no longer have this leverage.

**Termite Inspection** – This is a lender requirement for some loan programs or if the appraiser makes notes of concern about possible termites. If termites are located on the property, both parties will need to negotiate how this pre-existing condition will be remedied. Commonly, the solution is that the buyer will request and pay for the termite inspection and if a problem is found, the treatment will be covered by the seller. At the time your offer is submitted to the seller, be sure to discuss with your real estate agent if you will be obtaining a termite inspection, who will be paying for that inspection and who will pay for the termite treatment if termites are discovered on the property.

**Contract Period** – This is the time allowed to complete all due diligence on the property (home inspection, termite inspection, and any other inspections or reports),



all required loan requirements, and any additional steps to allow both buyer and seller to proceed with the loan closing and loan funding. Be sure to contact your lender to discuss the timing of the loan process, which will prevent any nonperformance on the contract due to loan contingency. Typically, purchase contracts are drawn up for approximately 30 days from contract date to closing.

**Seller Contributions** – As part of the negotiation of the contract, any issues related to the home inspection or the seller's eagerness to close the transaction, the seller may provide a contribution to pay some or all of the closing costs and prepaid expenses related to the purchase money financing. This contribution can be applied to the lender-related costs, title and other third-party costs, prepaid interest and funding of any escrow/impound account. Therefore, the contribution will effectively reduce your cash needed to close or allow you to use "points" (see "Points vs. No Points in this handbook) to reduce your rate and monthly payment. This seller contribution will be subject to any limitations based on the loan program you are using to finance the acquisition of the property. You should discuss the specific seller contribution limitations of your loan program with your lender prior to including this feature in your negotiations.

In Texas, the seller is not allowed to contribute funds back to the buyer after the closing to accommodate for repairs or upgrades to the property. Any seller contribution amount that exceeds the actual closing costs and prepaid expenses – or may exceed the limitations for this contribution based on the selected loan program – should be applied as a reduction in the sales price. To meet with underwriting guidelines, any seller contributions should be included in the appropriate section of the contract and not make reference to any language like "in lieu of repairs" or reference any specific items for repair.



## RESPA (Real Estate Settlement Procedures Act)

RESPA is a HUD consumer protection statute designed to help homebuyers be better shoppers in the homebuying process. RESPA requires that consumers receive disclosures at various times in the transaction and outlaws kickbacks that increase the cost of settlement services. RESPA is enforced by the U.S. Department of Housing and Urban Development. This law provides borrowers with the following rights:

- You have the **RIGHT** to shop for the best loan for you and compare the charges of different mortgage brokers and lenders.
- You have the **RIGHT** to be informed about the total cost of your loan including the interest rate, points and other fees.
- You have the **RIGHT** to ask for a Good Faith Estimate of all loan and settlement charges before you agree to the loan and pay any fees.
- You have the **RIGHT** to know what fees are not refundable if you decide to cancel the loan agreement.
- You have the **RIGHT** to ask your mortgage broker to explain exactly what the mortgage broker will do for you.
- You have the **RIGHT** to know how much the mortgage broker is getting paid by you and the lender for your loan.
- You have the **RIGHT** to ask questions about charges and loan terms that you do not understand.
- You have the **RIGHT** to a credit decision that is not based on your race, color, religion, national origin, sex, marital status, age, or whether any income is from public assistance.
- You have the **RIGHT** to know the reason if your loan was turned down.
- You have the **RIGHT** to ask for the HUD settlement costs booklet “Buying Your Home.”

## Next Steps Toward Obtaining a Mortgage

Now that I have decided upon a loan product and have signed a purchase contract, what is the next step?

Once you have selected a home and have a signed purchase contract, you are ready to provide your lender with the supporting documentation needed to complete the loan process and gain loan approval.

If you have been pre-approved prior to shopping for the home, then your lender already has the following items you provided for that pre-approval:

- Completed Uniform Residential Loan Application (Form 1003)
- Two most recent pay stubs for each borrower which reflect at least 30 days' year-to-date earnings
- W2s for each borrower covering the past two years
- Copies of the two most recent bank statements (all pages) from whichever account will be used to pay the down payment and costs at closing

Statements can be online printouts, but all statements must show the beginning balance and ending balance for each period, include the account holder's name, some portion of the account number and the banking institution's name.

As required by the Patriot Act, please be ready to explain any large recent deposits into your account(s).

- Credit report – provide letters of explanation for any adverse items.
- If you are self-employed or if more than 25% of your income is from sales commission, then you would have provided your two most recent full personal tax returns.

What additional documentation may be required for my loan?

- Copies of the two most recent company tax returns – if either borrower owns more than 25% of the corporation in which they are employed
- Copies of driver's licenses and Social Security cards (a passport is a substitute for a missing Social Security card)
- Additional bank account or investment statements
- Gift letter – if a portion of the down payment or closing costs will be paid from a gift
- If you have rental property income, provide a copy of all lease agreements
- Copies of divorce decree, if applicable
- VA only – Provide DD214 and Certificate of Eligibility

## Things to AVOID When Purchasing a Home

Many homebuyers rush out to buy things to fill their home as soon as the seller accepts their purchase offer and the lender pre-approves their loan. BUT there are still a few details to complete before the loan is done and the keys are handed over.

Any one of these things can greatly impact your ability to qualify for a mortgage loan. It is critical to avoid the following until AFTER your loan has closed:

### Making expensive purchases

Financing a large purchase may affect your credit portfolio during the time it means the most. Using cash to purchase big items is not an alternative, because many loan programs take into consideration the amount of money you have in the bank when approving your mortgage. Wait until your loan has closed before furnishing your new home.

### Changing jobs

Lenders like to see a consistent job history. Generally, changing jobs in the same line of work will not affect your ability to qualify for a mortgage loan, but it can delay the loan process. Changing careers and doing something different will have a direct impact on the loan approval and must be reviewed by an underwriter.

### Switching banks or moving money around

As the underwriter reviews your loan application, you may be asked to provide bank statements for the last two or three months on your accounts. To eliminate potential fraud and to comply with the Patriot Act, many loan programs require a paper trail to document the source of all funds. Changing banks or transferring money to another account – even if it's just to consolidate funds – could make it difficult for the lender to properly document your finances.

## The Six Steps for a Successful Closing

1. **Your loan officer** will inform you of when your file is expected to be complete and ready to close. **You or your real estate agent** will need to contact the **title company** to arrange a convenient appointment for your closing. Be sure to let your loan officer know the date and time.
2. Select your **homeowners insurance company**; you are free to select the insurance company of your choice. Ask your insurance agent to contact your lender at least **10 days prior** to your closing date. Policy information must be provided to the lender before your final loan documents can be drawn. It is also imperative that the insurance binder reflects lender requirements, so putting your lender in contact with your agent as soon as possible is of the utmost importance.
3. The **title company** will prepare your **HUD-1 Settlement Statement**. Once the numbers are approved by everyone (lender, real estate agent and title company), your loan officer will inform you of the amount of money you will need to bring at the time of your closing.
4. Make arrangements to bring a **cashier's check** made out to the title company to your closing appointment. You may also **wire the money** using the title company's wiring instructions two to three days before closing to ensure the wire arrives on time. There are rare occasions when the amount of the settlement costs changes before the time of closing. If you bring too much to closing, the title company will issue a refund, and if it's not enough, you can write a personal check for the difference, so make sure to bring your checkbook to closing.
5. Have your driver's license with you at the closing. All title companies will make a copy and some require two forms of identification, so check with your title agent prior to closing to avoid delays.
6. The closing could be delayed if documents are signed incorrectly or if closing conditions are not satisfied. If you have been asked to bring final documentation to your closing appointment, it must be provided or your loan cannot close at that time. After all documents have been signed, they will be approved by the lender and then the loan will be funded.



## Before You Move...

### Two Months Before:

- Prepare a rough budget or estimate for the cost of your move so that you can determine if you will need financial assistance to take care of expenses such as house-hunting trips, pet care, tolls, and utility and deposits related to the purchase contract (i.e., earnest money). Keep accurate records of all expenses; most are deductible on your federal income tax.
- Call movers for estimates and ask for references on their services that you can check. Some months are very busy so you need to start early.
- Once you have chosen your mover, discuss costs, packing, timing and insurance.
- Make a list of your belongings. Sell or donate anything you don't want.

### One Month Before:

- Advise your bank of your move so they can arrange service in the new location or offer recommendations on setting up accounts at other financial institutions.
- Notify your doctors, dentist and pharmacist of your move so records and prescriptions can be transferred. Ask for referrals in your new community.
- Find out which schools children will attend and what records they will need.
- If you have pets, arrange for boarding if necessary. Contact your veterinarian for their records and ask for referrals. Try to have any treatments or shots done before your move.  
Call ahead to determine if there are any specific requirements for the area to which you will be moving.
- Verify requirements for auto licensing.

- Notify insurance companies of your move. Arrange coverage on your vehicles and possessions.
- Close any charge accounts you won't need in your new community.
- Send change of address to the post office, your friends and family, magazines and creditors.
- Notify your church or synagogue if you wish to transfer membership.
- Cancel local deliveries: newspaper, dry cleaner, etc.
- Contact utilities for disconnection and possible refunds: electricity, gas, telephone, trash, water/sewage, and cable TV.

#### Two Weeks Before:

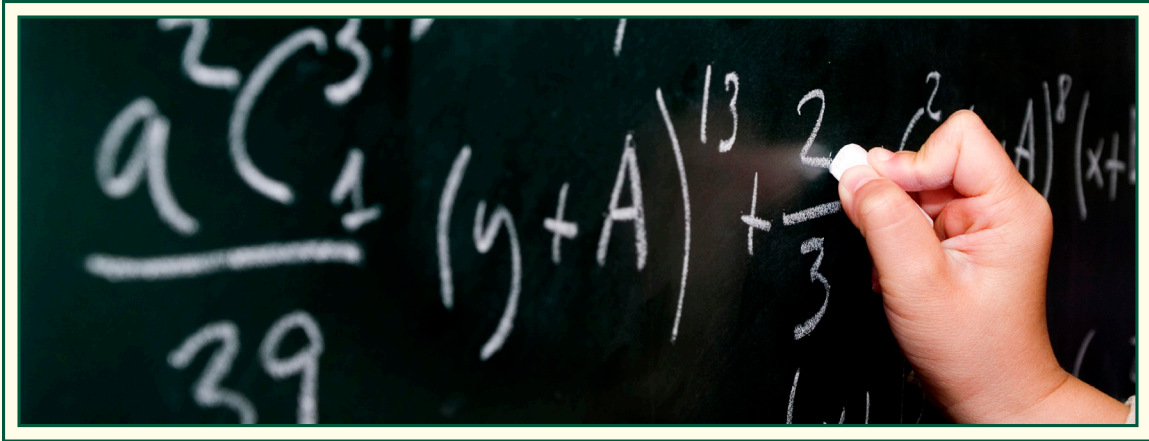
- Empty safe deposit box.
- Pack any items of sentimental value or valuable papers.
- Clean out refrigerator and cabinets.
- Have cars serviced.
- Get a babysitter while movers are in your home.
- Plan a furniture layout for the movers showing where things go in your new home.
- Make hotel reservations if necessary.
- If your home isn't sold, make cleaning and maintenance arrangements; notify police.
- Check with local tax assessors to make sure your tax records are in order.
- Take a local phone directory with you.

#### Final Days:

- Plan a "survival kit" if movers are delayed: snacks, items to occupy children, toiletries, phone numbers, etc.
- Empty gas from lawn mower, as well as any cleaning supplies that are not transportable.
- Label boxes that you'll need right away.
- Have money available to tip the movers as well as any incidentals until you have located a bank in your new community.
- Have appliances, satellite systems, alarm service and cable disconnected.
- Give movers a phone number so they can reach you.

#### On Moving Day:

- Take pets to kennels so they won't be anxious and underfoot.
- Arrange for childcare if necessary.
- Make sure someone is available to direct movers at old home during move.
- Make final inspection of old home and make sure doors and windows are locked, and lights are out.
- Take valuable documents, jewelry and money with you.

**When You Arrive:**

- Arrange for someone to be at your new home when the moving van arrives.
- Make sure all appliances at new location are functioning properly.
- Inspect everything before you sign your moving receipt, and find out how many days you have to claim damages discovered later.

## Frequently Asked Questions

We have compiled a list of questions most asked by our clients when preparing to buy a home.

### 1. What will my interest rate be?

Each loan has specific guidelines that we have to follow in order to lend someone money. Our interview with you will help us understand what type of loan will fit your financial goals. The very best rates are reserved for those people with the very best credit. If you have had credit challenges in the past that have not been corrected, you can expect to pay a higher interest rate.

### 2. What is the difference between APR and note rate?

The annual percentage rate (APR) is the total cost of a mortgage loan for the first year and includes some of the closing costs. The note rate is the interest rate that calculates the monthly principal and interest payment for the mortgage.

### 3. What are my total costs?

Closing costs and prepaid items range from 2% to 4% on all loan types PLUS any down payment.

### 4. Who pays the closing costs and prepaid items?

Depending on the loan type, all or a portion of the closing costs and prepaid items can be paid by the buyer, seller, real estate agent or the lender. When the lender pays the closing costs, interest rates will be higher.

### 5. What is the difference between mortgage insurance and homeowners insurance?

Mortgage insurance (MI) is a policy the lender has in place to protect their interest in the property should the loan go into default. MI is usually required when you have a down payment of less than 20%. Homeowners insurance is required on all loans (except condos) and is for the protection against damage to the property. For condos, the homeowners association pays for the property insurance.

### 6. Are taxes and insurance included in my payment?

FHA and VA loans require taxes and insurance to be part of the monthly payment. On conventional loans with 20% or more equity, you may choose to make these payments yourself instead of having them rolled into the mortgage payment; however, you will still have to pay the full amount yourself when these bills are due.

**7. What does the title company do?**

The title company's job is threefold:

- a. They hold your earnest money or "good faith" deposit in an escrow account and deliver it according to the terms of the sales contract.
- b. They search the title to the home and issue a title policy that insures you get a property with no liens from the previous owners.
- c. They distribute the money that is changing hands during the sale.  
The lender gives them the loan funds and they pay all the bills associated with the transaction.

**8. Who pays for the title company?**

The title company has three main fees:

- a. Escrow Fee – this is an administrative fee that you and the seller split equally (by law).
- b. The title company issues two title policies:
  - The seller typically pays for the owner's title policy, which is based upon the sales price. This policy is more expensive and issued for your benefit.
  - The buyer typically pays for the lender's policy, approximately \$200 to \$250.
- c. You will be charged for the direct costs of recording the documents with the county clerk, surveyor and courier services.

**9. Who pays the real estate agent?**

The seller pays the fee for BOTH the seller's agent and the buyer's agent.

## Glossary of Terms

### **Adjustable Rate Mortgage (ARM)**

A mortgage in which the interest rate is adjusted periodically based on a preselected index. Also referred to as the renegotiable rate mortgage.

### **Amortization Schedule**

A listing of each payment throughout the term of the loan that identifies how much of the mortgage payment goes toward interest and how much applies to principal.

### **Annual Percentage Rate (APR)**

The interest rate that reflects the cost of a mortgage as a yearly rate. This rate is higher than the stated note rate or advertised rate on the mortgage because it takes into account points and other closing costs. The APR allows homebuyers to compare different types of mortgages based on the annual cost for each loan; however, all lenders do not calculate APR the same way.

### **Application, Underwriting and Processing Fees**

Fees charged by the lender to cover the cost of completing the application, processing the loan, evaluating the risks involved, and establishing suitable terms and conditions.

### **Appraised Value**

An estimate of the present worth of a property based on market value of other similar homes that have sold in the same area. All appraisals are done by third-party licensed appraisers.

### **Broker**

This person does not actually loan money but assists in arranging funding or negotiating contracts for a client. Brokers usually charge a fee or receive a commission for their services.

### **Buy-Down**

This is when the seller subsidizes the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they increase when the subsidy expires.

### **Construction Loan**

This is a short-term interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

**Conventional Loan**

A loan on residential real estate of one to four units that is not insured or guaranteed by the federal government.

**Credit Scoring**

An objective method of assessing credit risk based on the statistical probability of debt repayment.

**Deed of Trust**

A type of security instrument in which the borrower conveys title to real property to a third party (trustee) to be held in trust as security for the lender with the provision that the trustee shall reconvey the title upon payment of the debt and, conversely,

will sell the property and pay the debt in the event of a default by the borrower. This is the pledge of property as security for the loan called the “mortgage.”

**Discount Points**

Fee charged by the lender at closing in exchange for a discount of the interest rate on the loan. Each point is equal to 1% of the loan amount, i.e., two points on a \$100,000 mortgage would cost \$2,000.

**Earnest Money**

Money given by a buyer to a seller as part of the purchase price to show that the buyer is serious enough for the seller to take the house off of the market.

**Equity**

The difference between the loan amount and the market value of the home. For example, if the house’s market value is \$300,000 and the loan

is \$250,000, then the owner has \$50,000 equity in the property.

**Escrow Account**

A separate account linked to a specific loan in which funds are held to pay a borrower’s homeowners insurance premium and property taxes. In some states,

escrow of taxes and insurance premiums are called impounds or reserves. The lender will set up this escrow account with two to four months' worth of the annual homeowners premium and two to four months' worth of the annual property taxes along with any other items required by the loan product. These amounts will be collected at closing and will be included as prepaid items on the HUD-1 Settlement Statement.

#### **Fixed-Rate Mortgage**

A mortgage loan in which the interest rate stays the same over the life of the loan.

#### **Good Faith Estimate (GFE)**

A standardized document that tells borrowers the approximate costs they will pay at or before closing based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage lender must deliver or mail the GFE to the applicant within three business days after the application is received, and the lender is held accountable for the accuracy of some lender-controlled fees on this document.

#### **FHA Loan**

A loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderately priced homes almost anywhere in the country.

#### **Homeowners or Hazard Insurance**

A policy and premium that provides compensation to the insured in case of property loss or damage from a variety of risks, including natural disasters and fires. A monthly payment for this insurance premium can be included into your total monthly home payment through an escrow account. When the annual policy is due, the lender will pay the policy from the funds in this escrow account. For purchase loans, the first year's premium is typically paid at closing.

#### **Impound, Reserves or Escrow**

That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance and any other items as they become due.

#### **Index**

Lenders base adjustable-rate mortgage rates on a variety of indexes. Among the most common indexes are the rates on 1-year Constant-Maturity Treasury (CMT) securities, the Cost of Funds Index (COFI), and the London Interbank Offered Rate (LIBOR). A few lenders use their own cost of funds as an index, rather than using other indexes. You should ask what index will be used, how it has fluctuated in the past, and where it is published – you can find a lot of this information in major newspapers and online.

**Interest**

Charge for the use of borrowed money.

**Interim Financing**

A short-term loan usually made during the construction phase of a building project.

**Loan Officer**

A person who originates mortgage loans and should be qualified to guide you through the loan process.

**Loan-To-Value Ratio (LTV)**

The ratio of the amount of the loan to the appraised value or sales price of the property (expressed as a percentage).

**Margin**

The amount a lender adds to the index on an adjustable-rate mortgage to establish the new adjusted interest rate.

**Mortgage Insurance**

Money paid to insure the mortgage when the down payment is less than 20%. When paying mortgage insurance, the borrower is actually paying for an insurance policy held by the lender to reduce their risk on the loan. For conventional loans, the mortgage insurance is called Private Mortgage Insurance (PMI) and for FHA loans, the mortgage insurance is called Mortgage Insurance Premium (MIP), but it's all the same thing.



### Negative Amortization

Negative amortization occurs when the monthly payments are not large enough to pay all of the interest due each month on the loan, therefore increasing the loan balance. In such a scenario, a borrower can literally end up owing more money than they originally borrowed. The reason this occurs is because on a negatively amortized loan, the

borrower is given several different payment options. Many of these types of loans are no longer available.

### Origination Fee

The fee charged by the lender for issuing a loan, usually computed as a percentage of face value of the loan. Many lenders claim it is included to cover administrative costs related to the loan. It may be expressed as “points” with each point equal to 1% of the loan amount. Some lenders, including Guardian Mortgage, charge no origination fee.

### PITI

Principal-Interest-Taxes-Insurance, also known as monthly housing expense, represents the total monthly obligation (whether or not an escrow account is set up).

### Piggyback Loan

A slang term that really is another way of describing a purchase loan structure where there is a first and second lien loan that close at the same time. This combination of the two liens can be effectively utilized to avoid the requirement to pay mortgage insurance. The borrower may apply for a loan at 90% with a 10% down payment. A First Trust Deed is at 80% and a Second Trust Deed at 10%.

The interest rate on the second lien loan is always higher due to the higher risk to the lender being in second position to the primary lender. However, the fact that the interest can be deducted often makes this a financial option of interest to the borrower.

Piggyback loans are now only available to those with excellent or superior credit.

### Prepaid Interest

Mortgage interest that is paid in advance of when it is due. When purchasing a home, you typically will not make the first payment on the loan until the beginning of the second full month after loan closing. Therefore, the interest for the days from the closing to the date of the first payment is collected at closing as prepaid interest.

### Prepayment Penalty

Penalty charged for an early repayment of debt. If the loan has a three-year prepayment penalty, the loan cannot be paid off for three years or a penalty will be charged.

### Private Mortgage Insurance (PMI)

See Mortgage Insurance.

**Property Taxes**

Taxes assessed and collected by the local government related to property ownership. At closing, property taxes are typically prorated (split) between the buyer and seller as determined by the closing agent.

**Recording/Transfer Fees**

Payment to a third party (state and local governments) for the recording of the purchase and title documents in the public record and transferring the ownership.

**Settlement Statement (HUD-1)**

A financial disclosure giving an account of all funds received and expected at closing, including closing costs and prepaid items like escrow deposits for taxes and insurance. All FHA, VA and most conventional loans use a uniform settlement statement called the "HUD-1 Settlement Statement."

**Subordinate Financing**

See Piggyback Loan.

**Survey**

The process by which boundaries are measured and land areas are determined; the on-site measurement of lot lines (also called property lines), dimensions, and position of a house on a lot, including the determination of any existing encroachments or easements.

**Title Insurance**

A policy usually issued by a title insurance company that insures against errors in the title search. There are usually two policies: 1) the purchaser's policy (based on the value of the property) that is often paid by the seller and 2) the lender's policy (typically \$200 to \$300) paid by the purchaser the majority of the time.

**Truth-In-Lending Act (TILA)**

A federal law that requires lenders and brokers to fully disclose, in writing, the terms and conditions of a loan, including the APR and charges, within three days after loan application.

**Underwriting**

The process of evaluating the loan file and providing (or declining) funding to potential homebuyers based upon factors such as credit, employment, assets, etc., and matches approved risks with appropriate rates, terms and loan amounts.

## Guardian Mortgage Company, Inc.

Thank you for considering Guardian Mortgage Company, Inc. as a potential mortgage lender for your upcoming purchase in Texas and Michigan.

Guardian has been setting the standard in mortgage lending with regard to rates, costs and customer service since 1965. Quality, consistency and reliability are ensured to our customers from our dedicated personal staff with more than 200 combined years of mortgage lending experience.

With common sense and uncommon smarts, we manage the details that deliver what you seek, be it a dream house, a lake house, or something in between. It is our privilege and goal to help you accomplish what you set out to do.

That's important to us because Guardian's success during the past 45 years is the direct result of superior service and customer attention. We're proud to "stick" with our customers throughout a loan's duration. We originate it and service it. From start to finish – from your first call to our office to the last payment you make on the loan – Guardian is focused on customers, first and foremost.

Enjoy the accomplishment of buying your new home, and know that if you choose us as your lender, we're here for you. Whether you call us back in five minutes or five years, we'll be here – ready with the answers.

Guardian is unique. It is large enough to provide the innovative, leadership services that are needed and yet small enough to give individual attention to each customer. Here are just a few of the advantages that Guardian Mortgage provides for you:

- Does not sell its servicing
- Does not use brokered funds
- Does not have any prepayment penalties
- Controls the entire loan process with in-house origination, underwriting, and servicing
- Has the reputation for making things happen quickly
- Has the proven ability and resolve to work with its customers fairly and forthrightly
- Extends highly competitive rate leadership
- Offers generous "peace-of-mind" rate-lock protection
- Offers a detailed "pre-approval" process for purchase loans
- Is independent and thus eliminates complicated corporate double-talk and unnecessary red tape

**Without exception we will ...**

- Listen attentively and ask questions in order to fully understand your needs
- Create mortgage solutions that complement your immediate and long-term financial goals as well as target your payment amount
- Communicate regularly and proactively to keep you informed on the status of your loan, therefore reducing the stress of uncertainty
- Be honest, kind, and take full responsibility for our actions
- Respect your time and minimize the amount of effort required by you
- Assure the quality of service we provide so you can wholeheartedly recommend us to your family and friends



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