# It's Great to be Home™

## Successful Homeownership Guide

Bank of America Home Loans

Dear Future Homeowner,

Buying a home is a big move, both from a financial and an emotional point of view. If you're like most people, it's one of the biggest decisions you'll make in your life. So before you begin, you should educate yourself to get a complete understanding of the home buying process. It can help you make informed decisions, and give you the knowledge you need to become — and remain — a successful homeowner.

To assist you, we've created this easy-to-use homebuyer's guide and workbook. It guides you step by step through the process — describing the basics, explaining the terms, warning of potential pitfalls and reminding you of the many advantages that come with owning your own home. It's provided at no cost, and is designed to help you understand what takes place when you buy a home and apply for a **Mortgage Loan**.

Once you've read the guide and completed the worksheets, we recommend you continue your studies. One way to become a more informed consumer is to consult a homebuyer education and counseling professional for information that goes beyond what is presented in this guide.

We hope you find this booklet useful. And we congratulate you on your wise decision to educate yourself thoroughly before taking the first step toward homeownership.

### Tips and terms to get you started

To get your home buying education off to a fast start, helpful tips and important terminology are highlighted throughout this guide. Look for these:

### Mortgages A to Z

When you see **Blue, Bolded Words**, then you know that you have run across important terms that you should become familiar with. You can flip to page 42 for detailed definitions of these words or concepts that will help clarify the subject matter in each section.

### Helpful Tip:

If you see a box off to the side, you will find ideas that can save you time, money or frustration.

# What's Inside This Guide

# Getting Comfortable with Homeownership

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# Getting Comfortable with Homeownership

## The benefits of homeownership

For most people, owning a home is a source of both personal satisfaction and financial reward. It can be a first step toward the creation of wealth, especially if the home increases in value (appreciation). Recent history has shown us that home prices can fall (depreciation). However, while there is no guarantee of home appreciation, home prices historically tend to go up over time. If you stay in your home long enough, you might benefit from appreciation, especially if the house was a good value when you bought it and you maintain it well.

The accumulated value of the home — which includes the repaid amount of the loan principal combined with any property appreciation that may occur — gives you **Equity**, also known as Home Equity. Home Equity may be used to pay for home remodeling or repairs, finance a college education or help with other important expenses. Additionally, homeownership typically offers income tax benefits in the form of an interest expense deduction. Please consult your tax advisor to find out about your specific tax benefits.

When you rent, you are paying for a space that is not your own. While you are not responsible for maintaining a rented property, you do not receive any potential reward for your monthly payments. Instead of paying rent every month, you can often pay the same amount — and sometimes even less — to buy a home.

Owning a home has several benefits. Homeownership could allow you to:

- **Build stability.** Being a homeowner can give you a sense of stability and permanence. It gives you the flexibility to make home improvements that meet your specific needs. You set an example for your friends and family who may also want to own a home of their own someday.
- **Realize more financial security.** As you pay down your loan balance, you may build equity in your home. You could also gain equity if the market value of your home increases over time. Home equity can be a strong financial asset that may play a key role in helping you achieve financial security for you and your family.
- **Use your home equity for education, debt reduction and other important expenses.** Should your home equity increase, you may be able to borrow against a portion of it with a home equity loan or line of credit. Many people use their home equity to pay for home improvements, medical expenses or tuition.
- **Reduce your income tax.** You may be able to deduct mortgage interest, along with your property taxes, from your taxable income. This could mean a lower overall tax bill and a potential refund. Often, the after-tax cost of owning a home can be lower than the cost of renting. Please consult a tax professional for more information.

## Owning vs. renting over time

Consider a situation in which your rental payment is $950 per month. A 30-year mortgage at 4% interest in the amount of $125,000 also has a monthly payment of $950.* See how the $950 rental payment compares over time to the monthly mortgage payment of the same amount.

By the end of 30 years, a renter who pays $950 in monthly rent would have spent $342,000. By comparison, someone who spends $950 per month toward buying a home might have accumulated $125,000 in equity, provided the property has kept its value.

When you study this chart, bear in mind that rental costs, which go up periodically, are likely to increase over 30 years. Property taxes and interest included in your mortgage payment may be tax deductible, which may add to the financial benefit of homeownership. You should consult a tax advisor for more details. On the other hand, if you buy a home, you must allow for home maintenance expenses, which you usually do not have to pay when you live in a rental property.

| | OWNING | | | | RENTING | |
|---|---|---|---|---|---|---|
| | PAYMENT | PRINCIPAL | INTEREST + TAX + INSURANCE | EQUITY | PAYMENT | TOTAL |
| Month 1 | $950 | $180 | $770 | $180 | $950 | $950 |
| Month 2 | $950 | $180 | $770 | $360 | $950 | $1,900 |
| Month 3 | $950 | $181 | $769 | $541 | $950 | $2,850 |
| Month 4 | $950 | $182 | $768 | $723 | $950 | $3,800 |
| Month 5 | $950 | $183 | $767 | $906 | $950 | $4,750 |
| Month 6 | $950 | $183 | $767 | $1,089 | $950 | $5,700 |
| Month 7 | $950 | $184 | $766 | $1,273 | $950 | $6,650 |
| Month 8 | $950 | $184 | $766 | $1,457 | $950 | $7,600 |
| Month 9 | $950 | $185 | $765 | $1,642 | $950 | $8,550 |
| Month 10 | $950 | $186 | $764 | $1,828 | $950 | $9,500 |
| Month 11 | $950 | $186 | $764 | $2,014 | $950 | $10,450 |
| Month 12 | $950 | $187 | $763 | $2,201 | $950 | $11,400 |
| **Year 1** | **$11,400** | **$2,201** | **$9,199** | **$2,201** | **$11,400** | **$11,400** |
| **Year 2** | **$22,800** | **$4,491** | **$18,309** | **$4,491** | **$22,800** | **$22,800** |
| **Year 5** | **$57,000** | **$11,940** | **$45,060** | **$11,940** | **$57,000** | **$57,000** |
| **Year 10** | **$114,000** | **$26,520** | **$87,480** | **$26,520** | **$114,000** | **$114,000** |
| **Year 20** | **$228,000** | **$66,057** | **$161,943** | **$66,057** | **$228,000** | **$228,000** |
| **Year 30** | **$342,000** | **$125,000** | **$217,000** | **$125,000** | **$342,000** | **$342,000** |

* Total Monthly Payment (PITI) assumes $2,640 per year in property taxes, $756 per year in property insurance and $840 per year in mortgage insurance.

## How prepared are you to own a home?

While there are many personal and financial benefits of owning a home, there are also the costs associated with homeownership. The combination of a monthly mortgage payment, property insurance, taxes, utilities and maintenance (less any expense deduction that may be allowable), can often be higher than a monthly rent payment. In some communities, however, owning a home may be less costly than renting. Changes in market conditions, as well as wear and tear on the property, may cause a decline in your property value. As a homeowner, you will have to address maintenance issues as they arise to avoid greater damage to your home that will be more expensive to repair.

Renting can often be convenient because you typically make a single monthly rent payment to live in the home. Sometimes, rent payments include the cost of utilities such as power and water. Keep in mind that when you purchase a home, you will be responsible for all costs, including some that you may not expect.

### Questions to ask yourself

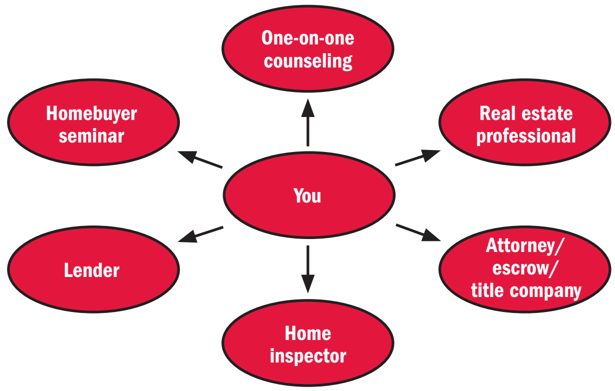
The answers to these questions can help you decide if you are ready to own a home:

- Are you ready to make a long-term commitment as a homeowner?
- Are you prepared to maintain your home and help protect the value of your property?
- Are you able to make repairs yourself, or are you willing to hire someone to make repairs?
- Are you able to establish and pay for all monthly utilities, such as telephone service, power, water and waste removal?
- Are you able to pay for additional monthly fees such as **Homeowners Association (HOA)** dues if they apply to homes in your neighborhood?
- Are you able to pay for the monthly taxes and insurance on a home?
- Are you willing and able to handle the necessary appointments with attorneys, real estate agents, lender or mortgage brokers, and other resources involved in the purchase of a home?
- Are you willing and able to relocate to a new home?

If you answered “yes” to these questions, you might be ready to buy a home. If you answered “no” to any of them, work with a real estate professional or homeownership counseling agency to help you strengthen these areas.

## You aren't in this alone — you have a home buying team

You can call on a variety of people to help you in the home buying process. A home buying team often consists of the following:




## Get prepared

Meet with a lender or a housing counselor to find out how much you can comfortably afford to pay for a home. A lender can make this easy for you by prequalifying you before you and your real estate agent begin looking for a home. A **Prequalification** is typically free and can usually be done in just one visit online, or even in one phone call. Some lenders may obtain your Credit Report before issuing a prequalification letter, which may result in a small fee.

During the prequalification process, a lender reviews the information you provide regarding your income and debts and gives you a general estimate of the loan amount you may qualify for. **A prequalification is not a loan preapproval, approval or a commitment to lend.**

When you have been prequalified, you will know generally what home price and approximate monthly payments you can afford. Once you have narrowed your home choices to two or three, it's recommended that you move on to applying for preapproval, which will allow you to show the sellers your ability to purchase the home.

A **Preapproval** gives you a better idea of what loan you will qualify for from your lender. A preapproval is a conditional loan approval granted when a **Credit Report** has been obtained and reviewed along with detailed information regarding your income and debts. A small fee usually applies for the lender to obtain a credit report. A minimum **Credit Score** is usually one of the preapproval requirements that can vary by loan type and other factors. Preapproval is subject to certain conditions, such as no change in your financial situation or the amount of debt you owe. Other conditions also require the property to pass **Title** and **Appraisal** review.

## Nonprofit housing counseling agencies are committed to assisting you.

If you need more resources about the home buying process or additional homebuyer education, contact a **Housing Counseling Agency**. If you have doubts about your ability to qualify for a loan — because you have an impaired credit history, no traditional credit payment history or previous loan denials — these professionals can provide you with guidance, one-on-one counseling and homebuyer education classes. By attending classes, you also will learn about the many options available to first-time homebuyers and more about the types of experts you can ask to join your home buying team. You can also visit our website at bankofamerica.com/homeloanguide for more information about nonprofit housing counseling agencies.

## Managing your money

Buying a home is very exciting! But you may be asking yourself, "How can I afford it?" A good place to start is by answering another question: "How well do I manage my money now?"

Sustainable homeownership first requires responsible money management. Unless you have sufficient funds to buy a house with cash (and few do), you are going to need a mortgage loan. Because borrowing money is a long-term financial commitment, you will need to be confident you can make the required payments on time each month. Before you apply for a mortgage loan, it is important to understand what income you have and where that money goes each month. You may find you are spending money in ways that are easy to cut back. Doing so may free up more funds to help you become a homeowner.

This workbook has easy-to-follow forms and tips to help you decrease spending, increase savings and manage your recordkeeping to keep it all together. The first step to successful money management is knowing where your money goes.

### Daily spending diary

Get into the habit of using a daily spending diary to record everything you spend money on. Total the amount spent at the end of each day. At the end of each week and at the end of the month, you'll know whether you're on the right track, or if you need to make adjustments.

| Day | What did I spend my money on today? | Amount |
|---|---|---|
| **Sunday** | | **$** |
| **Monday** | | **$** |
| **Tuesday** | | **$** |
| **Wednesday** | | **$** |
| **Thursday** | | **$** |
| **Friday** | | **$** |
| **Saturday** | | **$** |
| **Weekly Total Spent** | | **$** |

## Income and expense worksheet

You can work on your income and expenses using the income and expenses worksheet. Remember to plan for income and expenses that do not occur on a monthly basis. After you total your net income, which is what you bring home after taxes are deducted, you can subtract your monthly expenses and decide what to do with the leftover money. The goal is to save as much as you can for your down payment.

| **My Income** | | **My Expenses** | |
|---|---|---|---|
| Wages | $ | Rent/mortgages | $ |
| Public assistance | $ | Property taxes/insurance | $ |
| Child support/alimony* | $ | Trash collection | $ |
| Interest/dividends | $ | Car payment | $ |
| Social Security | $ | Car insurance | $ |
| Other | $ | Student loans | $ |
| | | Other loan payments | $ |
| | | Health insurance | $ |
| | | Day care/elder care | $ |
| | | Alimony/child support | $ |
| | | **Flexible Expenses** | |
| | | Savings | $ |
| | | Gas/oil | $ |
| | | Electricity | $ |
| | | Water | $ |
| | | Telephone | $ |
| | | Food | $ |
| | | Transportation/gas | $ |
| | | Car maintenance | $ |
| | | Education | $ |
| | | Credit cards | $ |
| | | Personal expenses | $ |
| | | Other | $ |
| **Total Income** | **$** | **Total Expenses** | **$** |

*When listing income on an application for a mortgage loan, you are not required to disclose alimony, child support or separate maintenance. You may wish to include this income if it helps you qualify for the loan amount you want to obtain.

## Monthly payment schedule

Using the monthly payment schedule, record when income will be received and expenses need to be paid. Here's how to use the schedule:

- Transfer your income sources and amounts from the income and expenses worksheet to the income column on the monthly payment schedule worksheet.
- Record the date the income amount is expected.
- Transfer your expenses, the date and amount due into the appropriate columns.
- Use different colored ink for income and expenses.
- Check off each bill as it is paid.

| Income and Expenses for the Month of ________________ | | | | |
|---|---|---|---|---|
| **Income** | **Expense/bill** | **Pay or due date** | **Amount due** | **Paid** |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

### Helpful Tip:

Many creditors recommend that payments be made at least three to five days before the due date — not including weekends or holidays — in order to ensure timely receipt of payments and avoid late charges, as well as a negative impact to your credit rating. Automated or online payments may be a good option.

## Monthly payment calendar

This worksheet makes it easier to manage your income and expenses in a timely way by presenting them in calendar form. Here's how to set it up:

- Note your income sources on the dates income is received.
- Transfer your expense payments to the dates they are due.
- Use different colored ink for income and expenses.
- Cross off each bill as it is paid.

| Monthly Payment Calendar | Month ________ | | | | | |
|---|---|---|---|---|---|---|
| **Sunday** | **Monday** | **Tuesday** | **Wednesday** | **Thursday** | **Friday** | **Saturday** |
| ___ | ___ | ___ | ___ | ___ | ___ | ___ |
| ___ | ___ | ___ | ___ | ___ | ___ | ___ |
| ___ | ___ | ___ | ___ | ___ | ___ | ___ |
| ___ | ___ | ___ | ___ | ___ | ___ | ___ |
| ___ | ___ | ___ | ___ | ___ | ___ | ___ |

# Money management tips

## Tips to decrease spending:

- Control your use of credit cards.
- Carry your written savings goals with you as a reminder.
- Use coupons to save money.
- Use a grocery shopping list to prevent impulse buying.
- Take your lunch to work instead of eating out.
- Shop around to get the best deal for big-ticket items like cars and appliances.
- Pay your bills on time to avoid late fees, extra finance charges, utilities being turned off, eviction, repossessions and the costs associated with an impaired credit rating.

## Recordkeeping tips:

- Keep important financial information in a safe place in your home or in a safety deposit box.
- Organize your files to make it easier to find information about your earnings and your spending and to update financial information.
- Keep your tax records for the IRS recommended minimum time for your situation.

## Simple money management tools

If you have access to a personal computer, it is easy to create your own money management spreadsheet. You may also want to purchase a personal finance program, many of which are available at minimal cost. Once you set up your system, updating information is quick and easy. But there are other, very simple money management tools you can use at home, with or without a computer. You should use the one you are most comfortable with.

### Expenses envelope system:

- This tool is useful if you pay your bills with cash each month.
- Make an envelope for each expense category, like rent, utilities or food.
- Label the envelope with the purpose, amount and due date.
- When you receive income, divide it into amounts to cover the expenses listed on the envelopes.
- Pay bills right away, so you won't be tempted to spend the money on something else.

### Budget box system:

- This is a filing system in a small box with dividers for each day of the month.
- When you receive a bill, check the due date and place it behind the card that represents the due date. Always look one week ahead so that you have time to mail or deliver a payment. Remember to pay your bills before the due date to avoid late charges.
- As you receive income, pay all the bills that are due.

Knowing that your finances are in order is vital, not only for peace of mind, but to commit to the responsibility of homeownership. It is also an important discipline that can help you decide if buying a home is right for you.

## How much home can you afford?

### Purchase price

A simple way to estimate how much house you can comfortably afford is to multiply your gross annual income by 2.5 to 3 times. For example, if your gross annual household income is $50,000, your approximate price range is between $125,000 and $150,000. This would include both the money you have up front (called the down payment) and the amount that you borrow from a lender (your home loan). Besides determining whether you have sufficient annual income to afford a home, you also must consider whether you have enough cash for a down payment and **Closing Costs**.

### The down payment

When you purchase a home, you will likely be required to contribute some of your own money toward the purchase. This money is called a down payment. Although in some cases, a down payment of as little as 3.5% of the purchase price is required, up to 20% down payment may be necessary, depending on your situation. The lender's requirements for a down payment depend on the mortgage loan program. In addition to the down payment, you may need to have additional savings for closing costs.

### Closing costs and prepaid items

In general, closing costs and prepaid items range from 3% to 5% of your loan amount. Closing costs vary depending on where you are buying a home and the amount you borrow from a lender. Closing costs include the various fees charged by the lender, local and other taxes, fees charged by the state and the city, escrow deposits, third-party fees, title insurance, appraisal and other prepaid expenses. These prepaid expenses include interest charged from the day you close until the end of that particular month, and the first- year premium of the **Hazard Insurance** policy. The down payment and most closing costs are paid at closing.

### Down payment and closing cost assistance programs

Some state and local government agencies, as well as nonprofit organizations, have closing cost assistance and **Down Payment Assistance Programs (DAPs)** for qualified borrowers who have modest incomes. Also, some lenders have their own homebuyer assistance programs.

If you need help with either your down payment or closing costs, call the city, county and state housing departments in the area where your new home is located. These agencies often have one or more types of homebuyer assistance programs. Some agencies require that you pay the assistance back over time or if you sell the property. Be sure to read the program documents carefully and make sure you fully understand the terms and requirements.

One type of down payment assistance program is an Individual Development Account (IDA). IDAs are often offered by nonprofit or government agencies and involve homebuyer education, savings from you and a match from the sponsoring organization. Be sure to contact these agencies before you submit a **Purchase Contract** to the seller so you understand the time needed to file the necessary paperwork and receive a response back from the agencies. For example, if you agree to a closing date in 30 days, but the application process for down payment assistance takes 45 days, you won't have the down payment money in time. This could jeopardize your **Earnest Money Deposit** if you cannot close within the agreed-upon time frame.

**Helpful Tip:**

The larger your down payment, the lower your monthly mortgage payment will be.

In some markets, lenders will offer loan programs that allow the seller to pay 3% to 6% of the purchase price toward your closing costs. However, you must negotiate these terms when you submit the purchase offer. Be sure to discuss this option with your real estate professional and mortgage lender very early in the process.

## Wrap-up: How prepared are you?

There are critical first steps that you should take before heading down the path to homeownership:

- Weighing the costs and benefits of owning a home and renting in the area where you would like to live
- Evaluating your money management and ensuring that you have financial discipline and savings routines in place to sustain homeownership
- Evaluating your annual and monthly income, expenses and savings to determine how much home you can afford

We encourage you to speak with a homebuyer counseling agency or mortgage lender to determine how much home you can comfortably afford and to find out if there are any down payment assistance options available to you in your area.

At Bank of America, our goal is to take the confusion out of the home buying process. With the tools and tips found in this chapter, we hope that you are able to make a more informed decision about choosing to buy a home. You can also visit our website at bankofamerica.com/homeloanguide for more information.

# Understanding Credit

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## What is credit and why is it important?

Simply put, credit is the act of borrowing money with the promise to pay it back in the future. When you apply for credit with a bank, retailer or finance company, the lender reviews your credit history to help them make a decision to approve or deny your request. Your credit history comes in the form of a credit report, and it gives lenders a level of confidence in your willingness and ability to pay back the money you wish to borrow. A strong credit history opens up a lot of opportunities. It lets lenders know that you are able to make financial commitments and that you can honor these commitments. It also helps you obtain low interest rates on your loans so you save money on the total interest that is required to be paid.

Among other things, credit can be used to finance cars, education, home improvements and, of course, the purchase of a home.

### Benefits of credit

Credit ratings are a very important part of the homeownership process. Lenders use credit ratings to help them decide who qualifies for a loan and what interest rate they should be charged.

A good credit rating makes it easier for you to get a mortgage loan, since it shows lenders that you've handled debt responsibly in the past. But the importance of good credit goes beyond making it easier for you to borrow money. Good credit also helps you to:

- **Save money**
  - Get loans at a lower interest rate
  - Obtain insurance at a lower rate
  - Establish utility services with lower deposits
- **Increase convenience**
  - Open a checking account
  - Lease rental property
  - Rent or buy things that you need
- **Increase your marketability**
  - Widen your job opportunities — some employers review credit when making employment decisions

### Good, impaired and no credit

Each person falls into one of three major credit history categories:

- **Good credit history.** A record of paying what you owe in a timely fashion and using credit responsibly.
- **Impaired credit history.** A record of not paying bills on time and allowing debt to build up. Impaired credit doesn't make it impossible to obtain loan approval, but it does make it more difficult — impaired credit borrowers typically receive higher interest rates. A low credit rating is not permanent. It can be improved through regular payments, as well as responsible debt and money management.
- **No credit history.** No official record of borrowing money or using a credit card, so a lending institution is unable to evaluate your repayment behavior.

**Helpful Tip:**

Pay your monthly debts when they're due or earlier if possible. One day late is still late.

## What types of credit are there?

Credit is a popular subject that is discussed everywhere from people's living rooms all the way up to the national news media. In these discussions, people are usually talking about what is known as "traditional credit," although there is actually a second type of credit known as "nontraditional credit." In this section we will talk about both types of credit and ways to establish or improve both types.

### Traditional credit

A traditional credit history is created when you borrow money from financial institutions and the credit accounts are reported to one or more of the credit reporting agencies. Traditional credit is what most people are referring to when they say the terms "credit," "credit report" or "credit score." There are three types of accounts typically used by creditors that are reported to the credit reporting agencies:

- **Installment credit agreement.** In an installment credit agreement, you sign a contract to repay a fixed amount of credit in equal payments over a period of time. Mortgages, automobiles, furniture and major appliances are often purchased on an installment basis. Personal loans are usually repaid in installments as well.
- **Revolving credit agreement.** In a revolving credit agreement, you have the option of paying the balance in full each month, making a minimum payment based on the outstanding credit balance or making any payment amount as long as it exceeds the minimum payment requirements. Credit card companies, department stores and automobile gas companies typically issue credit cards in a revolving credit plan. Banks issue credit cards and credit lines on the same basis.
- **Open 30-day agreement.** In an open 30-day agreement, you promise to repay the full amount owed each month. Examples of this type of agreement are traditional American Express® cards, travel and entertainment cards, and charge accounts with local businesses.

### Establishing traditional credit

One of the many confusing things about credit is how to establish it. If lenders won't give you credit without a credit history, and you can't get a credit history without credit, what can you do? Here are two solutions:

- Try to apply for a charge card at a department store. These cards are often easier to get because they are only valid at the specific store and they have low starting limits (around $200 to $300).
- Apply for a secured credit card. Secured credit card programs are designed to help establish traditional credit for individuals with little or no credit history. They also serve individuals who have had impaired credit in the past, but have shown an ability and willingness to handle credit responsibly for a reasonable period since. These cards usually have a low initial limit (around $300), an annual fee and a requirement that you put down money to be held by the credit card company as a security deposit.

**Helpful Tip:**

To receive the best loan terms, lowest rates and highest likelihood of approval, it is advised that you try to establish traditional credit at least 12 - 24 months before applying for a home mortgage.

### Nontraditional credit

Some people don't have a traditional credit history because they've never borrowed money from a bank, retailer or finance company that reports their payment information to a credit bureau. But lenders still want to see a pattern of regular and timely payments to feel comfortable that you will repay your debts on time according to the loan agreement. When there is no credit report to prove prompt payments over time, nontraditional credit may be taken into account. Essentially, nontraditional credit is established by documenting payments that are not usually reported to a credit reporting agency/bureau.

Nontraditional credit is usually only considered on certain loan programs. To receive the best loan terms, lowest rates and highest likelihood of approval, it is advised that you try to establish traditional credit at least 12 - 24 months before applying for a home mortgage. A strong nontraditional credit history can be a great way to help you establish traditional credit.

### Establishing Nontraditional Credit

If you lack a traditional credit history, you may be able to establish a nontraditional credit history that includes proof of timely payment of any bills that are not reported to one of the major credit bureaus.

To create a strong nontraditional credit history, keep detailed records, canceled checks or online bill payment receipts and invoices for 12 months, or get a credit letter for at least four of the following payment types:

- **Good.** Medical bills, school tuition, child care or personal loans
- **Better.** Automobile, life or renter's insurance
- **Best.** Rent and utilities

Ideally, you should have 12 months of timely payments for four items in the "best" category above. If these aren't available, try to document as many from the "better" or "good" sections as you can. Together, these documents show the lender that you have a history of making payment obligations on time. Most lenders accept nontraditional credit history for certain limited types of loan programs.

## How is credit reported and scored?

Lenders report your credit history to credit reporting agencies, also known as credit bureaus. The credit bureaus create a report that contains your payment history, personal information, collection accounts and information from public records. It also shows whether or not you have paid your debts on time, if you have ever been late making payments or if you have ever failed to make payments. Think of your credit report like your financial report card. Lenders use the credit report to assess a potential borrower's ability to make timely payments and to help judge whether or not the person would make a good prospect for a loan.

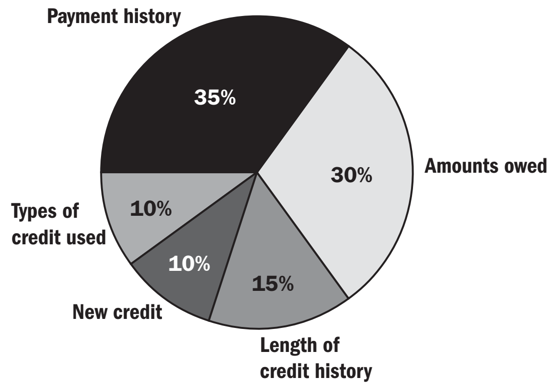
### Understanding your credit score

A credit score is a single number that summarizes your traditional credit history recorded on your credit report. Think of it like this — if your credit report is your report card, then your credit score is your grade. Your credit score is a dynamic number that changes as the information in your credit report changes. There are several different credit scoring models used today. If your credit report is your report card and your credit score is your grade, then think of the scoring models as teachers who are determining your grade. Each major credit bureau uses a different proprietary scoring model and each model can generate a different score.

## What's in the FICO® score?

The FICO® score (developed by Fair Isaac Corporation) is a proprietary model used extensively in the mortgage industry. FICO scores usually fall between a low of 350 and a high of 850. Generally, the higher the FICO score, the less risk there is for a lender, and the more creditworthy a consumer is considered to be.

This chart indicates the approximated weight or level of importance for each of the categories considered in the determination of your FICO score:




| FICO® Score Component | Score Weight | Advice to Improve Credit |
|---|---|---|
| Payment history | 35% | Pay your bills on time. |
| Amounts owed | 30% | Decrease your balances and increase your limit-to-value ratio. |
| Length of credit history | 15% | Keep old accounts open and don't swap accounts constantly. |
| New credit | 10% | Apply for new credit only when you really need it. |
| Types of credit used | 10% | Have a sensible mix of credit. |
| **Total** | **100%** | |

## VantageScore®

VantageScore, developed jointly by the three major national credit reporting companies, provides a consistent approach for them to provide credit scores. The VantageScore customarily ranges from 501 to 990 and includes a rating system similar to the academic grading system. Like the FICO score, the higher the VantageScore, the more creditworthy a consumer is considered to be.

## Check your credit report and score

You should obtain your own credit report to verify that all information is accurate and to get a sense of how others view your credit. You can request a free credit report once a year from each of these credit reporting agencies. The credit report is free, but you will pay a small charge to get your credit score. There are three major credit bureaus that report credit history:

Experian™
1.888.397.3742
experian.com

TransUnion®
1.800.888.4213
transunion.com

Equifax®
1.800.685.1111
equifax.com

You can also obtain free credit reports online at annualcreditreport.com.

It is important to review your credit report from all three credit reporting agencies because they may not all contain exactly the same information. A mistake on one report may not be contained in the others, so it's necessary to check all of them.

### Correcting errors on your credit report

You have the right to have errors corrected for free. To correct errors and omissions, follow the instructions on your credit report and inform the credit reporting agency about the errors in writing. Always communicate in writing, and make sure you keep a copy of your correspondence, so you have proof of what occurred. Send any additional information that is needed to correct the errors.

## Tips to manage your credit and improve your score

### Credit management recommendations:

- Pay your bills on time to avoid late fees and protect your credit. If you cannot pay on time, contact your creditor before the payment due date.
- If you can, pay your entire bill each month. Otherwise, try to pay more than the minimum payment to reduce finance charges.
- Always check your monthly statements to verify transactions.
- Carefully review and verify the effects on your credit regarding offers sent by creditors to "reduce or skip payments."

Whenever you can, take advantage of the cost difference between buying an item in cash (including any available "cash" discount) versus purchasing on credit. For example, if you purchase an item for $500 in cash, that's all you have to pay. But if you buy it with a credit card that has a 20% **Annual Percentage Rate (APR)** and you make the minimum payment of $10 each month, it will cost you $1,084 and take more than nine years to pay off.

### Recommendations to improve your score:

- Do not "max out" your credit limit. This comes with a significant credit score penalty.
- Reduce your debt on credit cards below 25% of the limit and try to never go above this amount. For example, if you have a $1,000 limit on your credit card, try not to use more than $250.
- Do not open new accounts unnecessarily. Opening new accounts will lower your score, and it takes about six months for your scores to begin improving. Plan for the right times to open new accounts so that they will improve your score over the long run. Credit enhancement is a marathon, not a sprint.
- Establish a mix of credit types, such as a department store charge card, a credit card and an installment loan or an open 30-day agreement card.

## Protecting your credit

Even if you've always had a spotless credit history, you've paid your bills on time and you've lived well within your financial means, your credit could be ruined by identity theft and fraud. Each year individuals with good credit histories fall prey to criminals who steal their identity and run up thousands of dollars in bad debt under their names. If this happens to you, even though it is no fault of your own, you could be faced with years of frustration and effort trying to clear your credit history of false information.

### How to help avoid identity theft

- Don't carry extra credit cards, your birth certificate, passport or Social Security number with you unless necessary.
- Don't print your Social Security number on your checks. Only give it out if absolutely necessary.
- Shield the ATM screen when using it in a public place.
- Shred preapproved credit card offers that arrive in the mail.
- Never leave a receipt with your credit card number on it in a public place. Take it with you to a safe place or tear it up.
- Regularly monitor your credit report, looking for any new information appearing without your knowledge.

### If you suspect identity fraud

If someone has used your name, Social Security number or driver's license to obtain credit, immediately contact each of the three major credit bureaus — Experian®, TransUnion® and Equifax® — and request that a "fraud alert" be placed on your credit file.

## Laws that protect you, the consumer

As a consumer, you have various legal rights that protect you in the process of purchasing a home:

- The **Equal Credit Opportunity Act** ensures that all consumers are given an equal chance to obtain credit. This law says that there cannot be discrimination by real estate agents, creditors and others involved in the home buying process because of sex, race, marital status, religion, national origin, age or receipt of public assistance.
- The **Fair Housing Act** makes it unlawful for any person or entity whose business includes engaging in residential real estate related transactions to discriminate on the basis of a person's race, color, religion, sex, familial status, national origin, age, receipt of public assistance or disability.

- The **Truth in Lending Act** gives you the right to receive clear disclosure of key terms of the lending agreement before you sign a loan contract, such as how much a loan is going to cost you, what the payments are going to be, and when they are due. This law requires disclosures be made in a uniform fashion so that consumers may more easily compare one loan versus another.
- The **Fair Credit Billing Act** applies to open-end credit accounts, such as credit cards, lines of credit and home equity lines. It protects consumers from unfair billing practices and provides dispute settlement procedures for resolving billing errors such as unauthorized charges.
- The **Fair Credit Reporting Act** regulates the collection, dissemination and use of consumer credit information. It's designed to promote accuracy and ensure the privacy of the information in your credit report. This law entitles you to receive a free annual credit report from each of the major national credit bureaus, and, if at any time you are denied credit, to correct errors and remove inaccurate information.
- The **Fair Debt Collection Practices Act** requires that debt collectors treat you fairly and prohibits unfair, deceptive and abusive debt collection practices. It creates guidelines under which debt collectors may conduct business (for example, the time when they can call you), defines rights of consumers involved with debt collectors (for example, the right to have collectors stop calling you at home or work if you send them a letter to that effect), and prescribes penalties and remedies for violations of the Act.
- The **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)** offers consumers a variety of protections when it comes to financial services — and includes rules specific to mortgage lending. For example: mortgage lenders are required by law to collect adequate proof that a borrower can repay a home loan (Ability to Repay), and if fees and points exceed a certain percentage of the loan amount, a homeowner must complete homebuyer education with a HUD-approved housing counseling organization. For further information, visit the Consumer Financial Protection Bureau's website at consumerfinance.gov.

### Helpful Tip:

Stopping phone calls from collectors does not release you from the obligation to pay legitimate debts. You could be sued, and valid judgments can ruin your credit history.

## Wrap-up: Take action on your credit today

When you want to buy a new home, credit is one of the most important factors in the approval decision and in determining the rates and terms of your loan. Some of the questions you should consider as you manage your personal finances and prepare for homeownership are:

- Do I have a traditional credit history, or do I have at least 24 months to establish one before I apply for a mortgage loan?
- If I don't have a traditional credit history, do I have 12 months of detailed records, including canceled checks, online bill payment receipts and invoices that I can use to establish a nontraditional credit history? Can I obtain credit letters?
- If I have missed payments in the past, am I committed to managing my payment obligations properly going forward?

We encourage you to order your own credit reports and become familiar with them. Use the tips in this chapter as you review your credit reports to find ways of improving your credit. We also encourage you to speak with a mortgage professional to determine your loan options and to get additional, detailed credit information that can help you obtain the best terms and rates on a mortgage.

For more information on credit and the home buying process, please visit our website at bankofamerica.com/homeloanguide.

# Understanding the Mortgage Loan Process


Navigating the Mortgage Loan Process

Bank of America Home Loans

# Understanding the Mortgage Loan Process

## What to expect

During the mortgage loan process, you, the seller and the lender should make sure all obligations related to the purchase and the mortgage loan are completed before the signing of the final documents. Some of these obligations include: a satisfactory **Home Inspection** and confirmation of the purchase of **Homeowners Insurance**, and a title review to verify that there are no **Liens** on the property.

Once you have submitted a complete application, the lender is required by the federal **Real Estate Settlement Procedures Act (RESPA)** to give you a **Good Faith Estimate (GFE)** within three business days. The GFE lists all of the costs that are involved in both securing the mortgage loan and settling on the property. You should compare the GFE with the actual costs that appear on the HUD-1 Settlement Statement which you will receive at closing. If there are differences, you should ask for an explanation.

The **Truth in Lending Act (TILA)** requires that the lender should also give you an initial Truth in Lending (TIL) statement within three business days of submitting your complete application. The TIL statement discloses all of the costs associated with borrowing on credit. This form shows you how much interest you will pay over the life of the loan and includes the Annual Percentage Rate (APR).

The APR represents, on an annualized basis, the charges you pay to obtain the loan, including interest, discount points and other costs. A low interest rate loan may sound great, but you must check to see if there are multiple points and lender fees that make the total APR much higher. The bigger the difference between the interest rate and the APR, the more you are paying in fees and other costs. Remember, the buyer always pays the costs, either up front or in the form of a higher interest rate.

After receiving approval from the lender and the **Private Mortgage Insurance (PMI)** provider — if PMI is required — a commitment letter is issued and the lender's closing department prepares the final documents.

This section will walk you through the loan process in more detail. But, to get started, here's an overview of the seven steps:

**Helpful Tip:**

Before the application process begins, your mortgage lender might recommend that you participate in formal homebuyer education and/or a down payment assistance program (DAP). For more information, contact your mortgage lender.

**Step 1:** **Prepare your information.** Prepare and review your personal information for the loan process. The more organized you are, the smoother the loan process will be. How to prepare and what you will need will be covered in the next section.

**Step 2:** **Prequalification.** Meet with your mortgage lender to begin the process and get an informal estimate of how much home you can afford. Your mortgage lender will prepare you for the next steps.

**Step 3:** **Application Interview.** Schedule an application interview with your mortgage lender. Be prepared to pay some up-front fees at the interview to cover such costs as processing the application and obtaining credit reports, and an appraisal. After the interview is over and you have provided the required documentation, your application is submitted to an underwriter for an initial credit decision. The underwriter reviews your credit, debt-to-income ratio, assets and the property appraisal to determine if you qualify for the loan and if the property is acceptable collateral. Most lenders have minimum credit score and maximum debt-to-income ratio requirements. All of these factors go into the underwriter's decision. Once your loan application has been through the underwriting process, a conditional approval, a counteroffer or a denial decision is issued. The lender's decision must be issued to you in writing.

**Step 4:** When your loan application is approved, you will receive a conditional approval letter and packet of information. A conditional approval means that you have been approved as long as all of the conditions in the letter are met before closing. Some typical loan conditions are: an **Appraisal** of your property must come back with a value that supports the proposed sales price; the attorney/title company must certify the title of the property, which proves that the property can legally be sold (the title must be "clear"); and a Flood Determination, which designates whether or not your home is in a flood zone. Also, a conditional approval states that the final approval will only be granted when there is no significant change in your financial situation between application and closing.

**Step 5:** Clear any remaining conditions from your **Conditional Approval Letter**. This could include proof of homeowner's insurance or proof of flood insurance, if your home has been found to be in a flood zone.

**Step 6:** Final approval. A commitment letter is issued once you receive final approval and, with this, you are ready to go to closing.

**Step 7:** Closing day. Your lender's closing department sends the documents to your closing attorney or escrow agent. If you are receiving down payment and/or closing costs assistance from a special program, additional documents may be issued from the provider of these funds. You will be informed in advance how much money you need to bring to the closing or settlement. You must bring this amount in the form of a certified check. It is a good idea to arrive at least fifteen minutes early. Also bring a valid form of picture identification and your checkbook, in case the amount you were told to bring in a certified check changes.

## Be prepared — What you need to apply

An application gives the lender a complete picture of your current financial situation, including income, assets, debts and other liabilities that are considered when applying for a loan. To apply formally for a loan, you need to fill out a complete application (Form 1003), supply documents that verify the information you gave the lender when you were prequalified and/or preapproved, and supply any other information the lender requires in order to make their credit decision. Having the proper documentation is essential to a smooth loan process.

The amount of information needed by your mortgage lender may be different for your particular situation, but this list will give you a head start on your preparation. Lenders also will require a copy of the **Contract of Sale** to complete the mortgage loan application. For a more detailed list, consult the *Financial information checklist* on page 58.

### Proof of income

If your income comes from a salary:

- Original W-2s
- Original paycheck stubs covering the past 30 days

If you're self-employed:

- Tax forms (including all schedules)
- Your current bank account statements for the last three months
- Declarations of gains and losses from the beginning of the year (profit and loss statement)

If you have income from other sources:

- Pensions
  - Authorization letter(s)
- Real estate properties
  - Tax forms for the past two years with appropriate schedules
  - Rental contract(s)
- Other
  - Any proof that you are receiving other sources of income

### Helpful Tip:

A counteroffer is made when the loan application cannot be approved under the terms that it was submitted, but the underwriter is able to approve the application under different terms. The loan is denied when the application cannot be approved under the terms submitted and there is not an acceptable counteroffer. The mortgage lender will work with you to understand the reasons for denial and can refer you to a homebuyer education and counseling professional for more assistance.

### Proof of reserve

If you have checking or savings accounts:

- Your current bank account statements for the last three months

If you have a 401(k) or IRA account:

- The most recent quarterly or bi-annual statement

### Co-borrower information

If you have co-borrowers who would like to be approved with you for the loan:

- The name(s) of the co-borrower(s)
- Income verification outlined earlier, if you are also relying on their income to qualify for the loan

### Nontraditional credit information

If you have limited or no traditional credit history:

- 12 - 24 months of statements from utilities, your landlord, the telephone company or other regularly paid creditors (see *What types of credit are there?* on page 12 and 13)

## Mortgage 101 — Introduction to terminology

There is a lot of special mortgage terminology involved in the home buying process. The most important terms are covered in this section, but if you are interested in learning more, you can refer to the *Appendix* on page 42.

### Components of a mortgage loan payment

Buying a house will probably be one of the largest financial transactions you make in your life, and making monthly mortgage payments will be one of your primary responsibilities. Your monthly mortgage payment reflects these "PITI" costs:

- **P** = Principal
  The amount applied to the outstanding balance of the loan
- **I** = Interest
  The cost of borrowing the money for that month
- **T** = Taxes
  1/12th of the estimated annual real estate taxes on the home, plus a small cushion for tax increases
- **I** = Insurance
  1/12th of the annual homeowners insurance premium, plus a small cushion for premium increases; this figure also will include flood insurance, PMI and homeowners' association (HOA) dues if these are required

Loans with less than 20% down may require private mortgage insurance. This insurance does not protect you; it protects the **Investor** in the event you do not continue making your payments. However, you pay for the PMI. You should contact a mortgage loan officer for more information specific to your situation.

You will probably pay the taxes and homeowners insurance, along with the principal and interest, to the lender every month. The lender will open an escrow account to hold this money until your taxes and insurance payments are due. In some cases, the lender may allow borrowers to pay the taxes and insurance directly to the taxing authorities and insurance providers. But many people consider it more convenient to combine these separate payments into their one monthly mortgage payment.

## Components of a mortgage

The first "I" in PITI represents your mortgage interest rate, and can affect your total monthly payment quite a bit. It is important to understand this rate and the other costs associated with using a mortgage to buy a house. These three categories include Rates, Fees and Points.

### Rates

As you shop for mortgages, it's important to understand the two types of rates — mortgage interest rate and APR. Here is the difference between them:

- **Mortgage interest rate.** This is the actual rate of interest you will pay over the life of the loan. Your monthly mortgage payment, or PITI, is calculated using the mortgage interest rate, not the APR.
- **Annual Percentage Rate (APR).** The method used to calculate the total cost of interest over the life of your loan, expressed as a yearly rate. This calculation also includes certain out-of-pocket costs you may pay to close your loan. If there are any prepaid finance charges, such as a loan origination fee or points, the APR will be higher than the mortgage interest rate. When you compare loan programs, always compare the APRs, since this will allow you to evaluate the total cost of the loan. Additionally, APRs may be calculated differently by various lenders.

### Fees

Fees are charged both at the time of application and at the time of closing. These costs are used, along with your mortgage interest rate, to calculate the APR. All of the fees that you are charged should be disclosed on the HUD-1 Settlement Statement that you receive from the settlement agent at closing.

- **Up-front fees.** Most lenders charge up-front fees at application that cover the cost of processing the application and the documentation needed to approve a loan — for example, application fee, credit report fee and appraisal fee.
- **Origination fee.** Lenders often charge an origination fee or point(s) to cover the cost of originating and processing the loan. It is often 1% of the loan amount. This fee is charged whether or not you pay discount points, and it is paid at the closing.
- **Third-party closing fees.** These are charged as part of the closing costs and cover items such as the settlement fee or attorney's fee, state and local filing costs, and taxes.

### Points

Also known as "discount points," points are paid by the borrower to the lender to obtain a lower interest rate. Each point is equivalent to 1% of the loan amount. For example, on a $125,000 loan, one point would equal $1,250. Paying for discount points or fractions thereof will "buy down" the interest rate and, as a result, the monthly payment. You can use an online calculator or ask your lender to help you perform a quick "break-even analysis" to see how many months it will take you to recoup the costs associated with paying for the discount point amount you are considering. In other words, if you paid $3,600 toward discount points to buy down the rate and the lowered rate would drop your payment by $100, it would take you three years to break even on your choice to pay the amount toward points. This is something to consider if you plan to move or refinance. You wouldn't want your break-even point to be longer than your expected plan to move or refinance. If you want to choose a rate with zero discount points, then you are choosing a "par" rate.

## Other costs of homeownership

You should have cash on hand for closing costs and moving expenses. You also should have funds reserved for future mortgage payments, since some lenders will require that you have sufficient savings to cover at least two monthly mortgage payments.

Moving expenses and reserve funds are a one-time occurrence during the purchase of a home. Maintenance, however, will be a recurring expense in your role as a homeowner. It's advisable to review your budget and reserve funds for home maintenance. Preventative home maintenance is important to avoid major expenses in the future.

## Mortgage 101 — Introduction to mortgage types

The *Mortgage loan products* chart on page 49 in this guide lists the most common types of loans, plus some special features and considerations for each. Talk to your mortgage lender for more details and make sure you have all the information you need to make an informed decision. In the meantime, here is a sample of loan products to get you started.

### Traditional loans

Traditional loans **Amortize** in a specific length of time. In the world of lending, **Amortization** is a fundamental concept:

- Mortgage amortization is the process of paying down your loan balance with regular monthly principal and interest payments over a fixed period of time.
- A mortgage amortization schedule is a timetable for mortgage payments that shows the amount of each payment applied to interest and principal and the remaining balance at the end of each month.

**Conforming Loans** are offered by lenders, credit unions and mortgage companies to creditworthy borrowers. They are called conforming because they conform to the basic guidelines established by Fannie Mae and Freddie Mac, the leading purchasers of mortgage loan packages on the secondary market. A loan that exceeds the Fannie Mae/Freddie Mac loan limit is typically called a Jumbo Loan and is a type of **Non-Conforming Loan**. A non-conforming loan generally has a higher interest rate.

### Fixed-rate mortgages

Fixed-rate mortgages have an agreed-upon interest rate at the start of the loan that does not change over the term of the loan. The principal and interest portions of the loan will not change. The most popular fixed-rate loans have either a 15-year or 30-year term. A fixed-rate loan is fully amortized and calls for equal principal and interest payments throughout the life of the loan, with the balance completely paid off at the end of the term. Keep in mind that the tax and insurance parts of the payment may fluctuate, regardless of loan type.

### Adjustable-rate mortgages (ARMs)

Adjustable-rate mortgages have an interest rate that may fluctuate over the term of the loan. Therefore, your monthly payment will go up or down depending on how the interest rate moves. The interest rate is based on a formula using a current economic **Index** and the mortgage lender's **Margin**. The adjustment is typically done on an annual basis. **Caps** are provided to limit how much the interest rate can go up or down in any new adjustment period or over the life of the loan. But adjustment caps can still allow significant increases to the rate and monthly payment, so you should carefully study and consider the increases possible in each period and over the life of the loan. Increases could result in "payment shock" and make it difficult to make your monthly payment obligation. On most ARMs, the rate of interest for the first adjustment period is set lower than on a similar fixed-rate loan. This can make the initial monthly payments smaller. Most ARM loans available now are "fixed-period ARMs," see immediately below.

### Adjustable-rate mortgages (ARMs) with a fixed period

These loans start with a lower initial fixed rate and monthly payment amount for a period of 3, 5, 7 or 10 years. After the fixed payment period, the loan changes to an ARM and adjusts at specific intervals, such as every ensuing year. Unless stated otherwise (some lenders offer fixed-period loans with an interest-only payment option for a specific period, commonly the first 10 years), each monthly payment made is a fully amortizing payment.

How often the interest rate changes is reflected in the name of the loan. For example, in a loan called a "3/1 ARM," the first number indicates that the interest rate will not change for the first three years. Beginning on the fourth year, the interest rate will adjust every year as indicated by the number one.

### Interest-only loans (I/O)

With interest-only loans, paying the amount in the interest-only payment option will cover only the interest charges incurred on the loan and will not pay toward the principal due. Having an "I/O" option allows a customer to make smaller monthly payments during the interest-only period, or the borrower can choose to pay the fully amortizing payment. In other words, with an interest-only payment, there is no payment toward the loan principal. The interest-only feature can apply for various periods of time, usually 3, 5, 7 or 10 years. After the completion of the interest-only period, borrowers are required to pay principal and interest, which will usually result in a significantly higher monthly payment for the remainder of the loan term. **The more interest-only monthly payments you make during the interest-only period, the higher your monthly payment will be at the end of the interest-only period**. When an ARM has an interest-only payment option, the monthly payment also may vary based upon the index and margin, as described above. Be sure you fully understand the risks involved before committing to an interest-only loan or making interest-only monthly payments. New federal laws that will take effect in 2014 (Dodd-Frank) have strict rules about Interest-only loans and Balloon-payment loans. It is important to know what these are in case you encounter them. But, be aware that the availability of these loans may be very limited now and they may be completely unavailable soon.

### Balloon-payment loans

Balloon-payment mortgages have a smaller fixed monthly payment based on a 30-year schedule of payments. The entire loan comes due at the end of a set period, normally 5, 7 or 10 years, at which time it must be paid off in full or refinanced. This is another type of nontraditional loan and is not recommended for most homebuyers.

### Home equity loans or second-lien mortgages

In addition to **First-Lien** mortgage loans, lenders also offer **Second-Lien** mortgages such as home equity loans and home equity lines of credit (HELOCs) that are commonly used by borrowers to fund home improvements, help pay for college and consolidate debt by accessing their available home equity. These loans also can be used to help purchase a home. When a home equity loan and a mortgage loan are used together to help purchase a home, this is typically called a **Combo Loan** or piggyback loan. Piggyback loan guidelines have become more strict and their availability may be quite limited.

## Government loans

Government loans are insured or guaranteed by federal government agencies such as the Federal Housing Administration (FHA) and Department of Veterans Affairs (VA). The insurance protects the lender (not the borrower) if the borrower does not repay the loan. This insurance allows the lender to provide loan options and benefits that may not be available through conventional financing.

### FHA insured loans

The 203(b) is the most common FHA loan and features:

- Low down payment
- Flexible qualifying guidelines
- Limited lender fees

How much you can borrow using an FHA loan varies from state to state. To see what the FHA loan limits are in your state, visit hud.gov then select Resources and FHA Mortgage Limits.

### VA insured loans

For eligible veterans of the U.S. military, VA loans feature:

- As little as zero down payment required for qualified borrowers
- Competitive fixed interest rates
- Limitations on closing costs

## Choosing the loan that's right for you

An uninformed borrower could make a costly mistake when obtaining a mortgage to buy a home. It is important to understand all available options and choose a loan that you can comfortably afford to pay each month. The loan should also make sense based on how long you expect to stay in your home. Lenders offer a variety of loans to accommodate each borrower's needs and preferences. A responsible mortgage lender will explain these loan programs in detail so you can choose the most suitable loan. If your lender does not take the time to answer all your questions and provide you with helpful information, you may want to consider looking for another lender.

### Advantages and disadvantages of fixed-rate mortgage loans

The most popular mortgage loan is the traditional fixed-rate mortgage loan. Generally, the interest rate is a little higher than the initial rate you receive with a variable-rate mortgage, but you should compare rates before applying for either type of loan. With a fixed-rate mortgage loan, you have the assurance that your interest rate will never rise. Also, your monthly payments of interest plus principal will always remain the same. If you are the kind of person who prefers to know exactly how much you will pay each month, this could be the ideal loan for you.

## Advantages and disadvantages of adjustable-rate mortgage (ARM) loans

An ARM loan typically has a lower interest rate in the beginning than a fixed-rate mortgage, but the rate will eventually change. When you are choosing a loan, keep in mind that rates can vary daily. In some cases, rates for fixed-rate mortgages may be nearly as low as initial rates for ARM loans.

One advantage of an adjustable-rate mortgage loan is that you may be able to qualify more easily, because the initial interest rate, and therefore the initial monthly mortgage payment, is usually lower than a fixed-rate loan. In addition, adjustable-rate mortgages may save you money in the long run if interest rates remain constant or fall. Depending on the loan's adjustment period, the rate on an ARM loan will be reduced if interest rates decline, allowing you to take advantage of lower interest rates without having to pay refinancing fees.

One disadvantage of an adjustable-rate mortgage is that if the interest rate goes up, the monthly payment will also increase. The loan may have a cap to limit how much the interest rate can go up or down in any new adjustment period or over the life of the loan. But adjustment caps can still allow significant increases to the rate and monthly payment, so you should carefully consider how much the payment might change. It is possible that the adjusted rate may become so much higher during the life of the loan that it is no longer affordable, leading to "payment shock." Payment shock can be especially severe in the case of many nontraditional loan programs, such as 3/1 fixed-period ARMs or interest-only loans.

## Potential dangers associated with ARM and nontraditional loan products:

- Monthly principal and interest payments may vary.
- Payment shock can occur when the interest rate and monthly payment rise sharply at a rate adjustment in an ARM and may result in the payment becoming unaffordable.

### Helpful Tip:

The lowest interest rate quoted by a lender may not always be the best offer for you. To get a picture of the real cost of the loan, you need to look at the APR that is written on the far left side of the Truth In Lending (TIL) form that the lender provides or in other documentation that lists the rate. The APR represents the estimated effective total annual cost of the loan, including finance charges. Always compare the APRs when comparing loan programs.

## Matching the loan to your goals

See *Mortgage loan products* on page 49 for more help selecting a product.

| Your Homeownership Goal | Your Mortgage Loan Strategy |
|---|---|
| If you plan to live in this home for many years... | Seek a low interest rate for the long term. Since you'll be making loan payments for many years, a good strategy may be to get a fixed-rate loan and pay points to achieve a lower interest rate. |
| If you plan to sell or refinance your home in several years... | Avoid points, since the difference in interest payments doesn't make it worthwhile compared to your out-of-pocket costs at closing. An adjustable-rate mortgage can be a good option if you are only going to have your mortgage for an established, shorter period of time. |
| If you want to pay off the loan before your children go to college... | Look for a shorter-term loan, such as a fixed-rate 15-year loan, to make sure that you can use your home equity for other purposes later in your life. The payments you'll be making will reduce the loan balance faster and allow you to build equity more quickly. |
| If you want to budget a fixed payment each month... | A fixed-rate loan offers you an amortized payment that remains steady throughout the life of the loan. |
| If you are comfortable knowing that after a few years of having a fixed rate and making the same principal and interest payment each month, you can handle periodic adjustments in the interest rate and pay more each month… | A long-term ARM or hybrid loan may be a good option for people whose income is expected to rise in the next few years, who plan to refinance in the near future, who can pay more each month in a few years if interest rates rise, or who plan to sell their home in the near future. |

### Helpful Tip:

Fill in the information on the *Mortgage loan shopping worksheet* on page 56 for each lender you speak to. Use it to compare the loan programs and pricing, and it will serve as a reference when the time comes to make a decision.

## Beware of predatory lending

In communities across America, people are losing their homes and their investments because of predatory lenders, appraisers, mortgage brokers and home improvement contractors who:

- Sell properties for much more than they're worth using false appraisals
- Encourage borrowers to lie about their income, expenses or cash available for down payment in order to get a loan
- Knowingly lend more money than a borrower can afford to repay
- Charge high interest rates to borrowers based on their race or national origin and not on their credit history
- Charge fees for unnecessary or nonexistent products and services
- Pressure borrowers to accept higher-risk loans that are not in the borrowers' best interests, such as balloon-payment loans or loans featuring interest-only payments
- Target vulnerable borrowers with cash-out refinance offers when they know borrowers are in need of cash because of medical expenses, unemployment or debt problems
- Strip homeowners' equity from their homes by convincing them to refinance again and again when there is no benefit to the borrower
- Use high-pressure sales tactics to sell home improvements and then finance them at high interest rates

## How do predatory lenders operate?

Predatory lenders will do whatever it takes to get the result they desire. Here are some approaches you should look out for:

- Instead of encouraging you to compare mortgage prices and products, a lender or investor tells you that they are your only chance of getting a loan or owning a home.
- The house you are buying costs a lot more than other homes in the neighborhood, but isn't any bigger or better.
- You are asked to sign a sales contract or loan documents that are blank or that contain information that is not true.
- You are told that the Federal Housing Administration insurance protects against property defects or loan fraud, when it does not.
- The cost or loan terms at closing are not what you agreed to.
- You are told that refinancing can absolutely solve your credit or money problems.
- You are told that the only way to get a good deal on a home improvement is to finance it with a particular lender.

## What happens at closing?

Whether you are purchasing or refinancing a home, closing day can be a whirlwind. Everything moves fast and there are a lot of papers to sign. It's a good idea to review what will happen ahead of time, so you can close your loan with confidence.

### Who will be there?

The number of people who will attend your closing depends on many factors, including the state where the property is located, the property type, and more. People attending the closing may include the lender, the sellers, the buyers, attorneys for both the sellers and the buyers where required, the escrow officer, the title officer, and the real estate agent. In addition, sometimes the mortgage broker or the housing counselor may attend.

### Closing documents

You will be signing many binding agreements during the closing. It is important that you understand what you are signing as you accept rights to the property, agree to pay the lender for the money you borrowed and agree to the fact that the lender has the right to the property if you default on your loan. Some documents are required by federal law, and others may be required by the state or the lender:

- **Final Truth in Lending.** In this form, the lender discloses the APR of the loan, including the interest and the schedule of payments.
- **HUD statement.** This is prepared by the lender or, in some states, prepared by the title company at the request of the lender. It is an itemized list of all the services provided and the fees charged to you and the seller.
- **Promissory note.** This is your promise to repay the money to the lender according to the agreed-upon terms, including the dates on which your mortgage loan payments must be made and the location to which the payments must be sent.
- **Mortgage.** This is the document used to secure the promissory note and is a contract that makes your home the security (also known as "collateral") for the loan and guarantees its repayment. In some states this is known as a Deed of Trust.
- **Affidavits.** You will be asked to attest under oath to certain information in writing — for example, the fact that you are going to occupy the property.
- **Deed.** This is the legal document that transfers the ownership of the property from the seller to the buyer.
- **Title insurance.** This is the document that protects you and the lender against title defects or lawsuits by third parties claiming a legal interest in the property.
- **Escrow analysis.** This is the document that provides detailed information about all the expenditures from and contributions to your escrow account.
- **Homeowners or hazard insurance.** This is the policy you purchase to cover damages to the property, which should include replacement cost coverage rather than actual cash value coverage.

You also will need to obtain a certified or cashier's check to pay the closing costs. Once these documents are signed and the closing costs are paid, the lender will release funds to the seller of the property and you are a homeowner.

Moving into your own home is an unforgettable experience. We hope you will soon be enjoying it with your family and friends.

## Common loan questions

### Q: Why are down payments so low on some loan products?

Some loan products offer a low down payment feature to help first-time homebuyers, borrowers with low-to-moderate income and individuals with limited funds for down payment. There are loans with low down payments that also have less stringent qualification guidelines. But keep in mind that, in many cases, a low down payment can lead to a higher monthly payment and a higher probability that private mortgage insurance (at an additional cost) will be required. So if you're interested in a loan with a low down payment feature, ask your mortgage lender for all the information about these products.

### Q: Why does the same type of loan have different rates?

Your actual rate is based on a number of factors, including your credit score, the type of property, occupancy and other factors. Mortgage lenders consider these factors in pricing and will adjust price based on risk. Mortgage lenders will generally charge a higher rate for increased risk. These adjustments are commonly known as pricing add-ons or risk-based add-ons, and they can make a big difference in your interest rate.

Depending on the loan, a risk-based add-on of 1% in discount points may equate to a 0.25% to 0.75% increase in the interest rate. If you start with a 30-year mortgage in the amount of $125,093 at 4% interest, a 0.75% increase in your rate to 4.75% would increase your monthly payment from $597.21 to $652.54. This risk-based add-on would cost you more than $19,919.00 in additional interest over the life of the loan. Here's some information that can help you get a low interest rate:

- A high credit score will help you avoid many risk-based pricing add-ons and may reduce the available rate.

### Q: Are the requirements for the purchase of a condominium or a co-op the same as for a house?

The necessary documentation to qualify for a loan is basically the same for condominiums (condos) and cooperatives (co-ops) as it is for houses, no matter what size they are. Condo and co-op projects must meet owner-occupancy and other lender requirements. Make sure you obtain the appropriate documents and HOA certification from your real estate professional or the seller for the underwriter to review. The lender will verify the financial soundness of a condo or co-op by reviewing the offering plan and accompanying financial statements. In addition, some lenders may limit the availability of mortgages for co-ops based on geographic location.

### Q: What types of insurance will I need for the closing?

You will need to present proof of homeowners or hazard insurance in order to close on the home. Homeowners insurance protects against the risk of loss to your home and the contents of your home in case of a fire or other covered incident, and also provides liability protection for you in case someone is injured on your property. You also may need to provide evidence of flood insurance if your house is in a flood hazard area. Your lender will notify you of this before closing.

If your down payment is less than 20%, you also may need private mortgage insurance (PMI), which protects the lender against loss if a borrower defaults. Your lender will provide PMI as part of the mortgage loan; however, you are required to pay for this insurance and the cost will be included along with your PITI.

### Q: What should I do before closing?

Before the closing, you should be certain that all conditions you specified in the purchase contract have been met. If the sellers needed to do any repairs to the home, be sure they have been completed. And prior to signing any document, take the time to make sure that all the information in it is correct.

## Wrap-up: Reaching your homeownership destination

As you can see, the loan process can be complicated, but fortunately there are experts, like mortgage lenders and housing counselors, available to help you. In this section we discussed a lot of terms related to mortgage loans and the home buying process. As you look to finance a home, continue to reference this chapter to help you understand your options and keep the following in mind:

- Have I planned for the correct amount of time it takes to obtain financing?
- Do I understand the type of mortgage that I have chosen and the advantages or disadvantages of the product?
- Am I comfortable with the total loan payment and any changes that can occur with my loan payment depending on the type of product I have chosen? Remember: interest-only loans, adjustable-rate mortgages, fixed-period ARMs and other types of loans have payments that may increase, sometimes dramatically.
- Am I familiar with and able to afford all of the costs involved with the loan closing, including: fees, points, prepaid interest, prepaid insurance and other fees/closing costs?

We encourage you to speak with a mortgage lender and ask questions to make sure that you understand all of the terms, features and penalties that can come with the various mortgage loan programs that you qualify for.

# Finding a Home

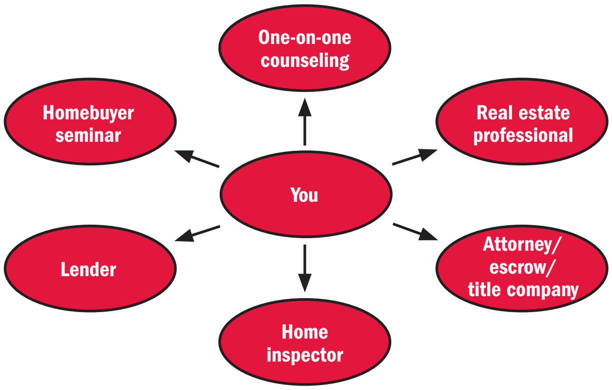



Bank of America Home Loans

# Finding a Home

In this section you will get to know the people on the home buying team. This team includes:

- **Real estate professionals** — sometimes called real estate agents, real estate brokers, or if members of the National Association of REALTORS®, a "REALTOR®"
- **Closing agents** — also known as escrow agents or closing attorneys
- **Mortgage lenders** — sometimes called mortgage brokers, mortgage loan officers or mortgage loan agents




## Your real estate professional

With the loan process underway, it's time to find a real estate professional to help you find the right home for you. A real estate professional is an expert who knows what homes are for sale and which of those can meet your requirements. Share the information from your prequalification letter to help your real estate professional select homes that are in your price range. Your real estate professional can provide you with information about neighborhoods you may be considering, as well as other locations that you may not have thought about. Your real estate professional can give you practical advice about what you should look for in a home. When it's time to make an offer on the home you wish to purchase, your real estate professional will be there to help.

### The ideal real estate professional:

- Understands your needs and objectives
- Is professional and dedicated to doing a good job
- Knows the area where you want to live
- Knows how much you can spend on a home
- Has a valid real estate license or certificate
- Has excellent references from other clients
- Treats you with the respect that you deserve

### How to select a real estate professional

A real estate professional plays a very important role in the home buying process and should be selected with care. Before selecting a real estate professional, ask for recommendations from family and friends, and interview several real estate professionals to have a better idea of what each one is like and what each offers you. The relationship between a real estate professional and a buyer should include mutual respect and trust, similar objectives and — depending on local area practices — a written agreement that specifies the terms and conditions of the real estate professional's representation of the buyer.

## The real estate attorney

In some states, you need a real estate attorney to make certain that all binding legal documents are correct. An attorney provides you with valuable legal assistance, reviews the purchase contract with you before presenting it to the seller, checks to see that your contract includes a clause that the purchase depends on a satisfactory professional inspection, works with the seller's attorney to keep your cash down payment in escrow, and attends the closing with you. Check to see if your state requires an attorney.

## The mortgage lender

Unless you have sufficient money to buy a house in cash (and very few do), you will need financing. Lenders can be banks, mortgage companies, savings and loan institutions, credit unions, government agencies or private individuals. Some sellers offer to provide their own financing. If you choose this method, you need to be certain that the financing terms are to your advantage. The lender plays a very important role in the home buying process. Choose a lender that you trust and that offers the best loan programs for your current financial situation.

When considering a lender, you need to be confident that you are working with someone who is knowledgeable and who will give you the information you need so you can look out for your own best interests. When you make a decision on a lender, be sure that you select someone who knows the mortgage lending laws and common business practices for your area. You'll want someone who has a good reputation with customers, local real estate agents and settlement attorneys. Don't be afraid to ask questions — any questions. Your decision to obtain home financing is too important to be shy about asking what you may think is a "dumb question." There is no such thing. Spend the time to become well informed before you decide on your mortgage loan. And above all, always get everything in writing.

### What is a mortgage broker?

A **Mortgage Broker** is a loan finder; brokers do not lend their own money. The mortgage broker is an independent contractor who works with various mortgage lenders, serving as a liaison to find the best loan program for your needs. You might consider using a mortgage broker if you do not have the time to search for programs from different lenders. This is the job of a mortgage broker. Make sure you talk with your mortgage broker about how they are compensated.

Before working with a mortgage broker, look for someone with the experience and skills to help you. Check a mortgage broker's reputation by asking for their brokerage license number and contacting the state agency assigned to regulate mortgage brokers in your area. Look for a member of the National Association of Mortgage Brokers (NAMB) at NAMB.org and ask the mortgage broker about her/his relationship with lenders. Generally, mortgage brokers have relationships with several mortgage lenders. The products and prices offered by mortgage lenders can vary considerably and mortgage brokers are usually able to obtain multiple offers for an applicant.

To arrive at a full understanding of the products available and to select the product that best fits your needs, you should ask the mortgage broker questions about product features, fees and pricing. In many situations, fees and pricing can be negotiated. And be sure to get those fees and prices in writing. All fees paid to the broker, whether by the lender or the borrower, are required by federal law to be disclosed to the borrower. The specific amount of compensation paid to the broker may not be known until the broker locks in your loan with a lender, which may occur after you have received your initial Good Faith Estimate (GFE) document three days after application. When this happens, you should consider asking for a revised GFE so you can see what compensation your broker is estimated to receive. The final amount of compensation paid to a broker is always shown on your loan closing statement, known as a HUD-1.

### Quick tips for selecting a mortgage lender or mortgage broker

Ask trusted friends, advisors or relatives for a recommendation. Use the following list to help remind you what questions to ask:

- Did you confirm you were working with a licensed mortgage loan officer by asking for their Nationwide Mortgage Licensing System & Registry (NMLS) number?
- Did the mortgage lender take time to explain all of the steps of the loan application and approval process?
- Were you offered a choice of different loan products?
- Were you provided a Good Faith Estimate of all closing costs within three business days of your application?
- Were you provided a Truth in Lending statement showing all the costs of credit within three business days of your application?
- Were you given a written preapproval letter/certificate within a reasonable time?
- Did the loan close in the time you were told to expect?
- Were there any unexpected changes in the terms at closing?
- Were the actual closing costs as contained in the HUD-1 Settlement Statement substantially different from the Good Faith Estimate? If yes, was the lender's or broker's explanation satisfactory and reasonable?
- Would you use this lender for a future purchase or refinance? Why, or why not?

Ask your real estate professional or housing counselor to give you the names of three mortgage lenders who have worked successfully with his or her buyer clients. When you contact the mortgage lenders be sure to ask:

- Can you obtain a prequalification to estimate what you can afford?
- What is the preapproval process? Is there a fee?
- Will you be offered a choice of programs to meet your needs?
- Using your basic information, what loan programs does the mortgage lender anticipate would best suit your needs?
- What are the current rates for various programs? Remember, the interest rates can be reduced if you are willing to pay discount points. Also when you are quoted rates, always ask the question, "How many points?"
- What lender fees are charged and how much are they?
- Will the quoted rate be locked in? What is the lock-in period and is there a fee?
- Does the rate assume a prepayment penalty?

## Making the home search easy

### What should you look for in a home?

Before you begin searching for a home, it is important to decide what characteristics you want in a home. Write down your requirements, and use this list to evaluate how the homes you look at meet your needs. Make note of the information while you are at each home. That way, you will be able to remember the pluses and minuses of the homes you see, and evaluate them all using the same criteria. The *Home features checklist* provided on page 54 of this guide can help you record the features of each home while you search.

To reduce the number of homes that you visit, begin by deciding what factors are important to you, such as the approximate cost of the home and the location. Then you can begin to determine more specific details, such as the neighborhood, the characteristics of the home and the type of dwelling. You may already have a picture in your mind, but several types of residences may be more available in the neighborhood where you want to live. Here are some of the options:

- **Detached single-family home.** A stand-alone property surrounded on all four sides by land.
- **Attached single-family home.** A house attached to other houses on one or two sides.
- **2- to 4-family dwelling.** If your intention is to rent part of your home, the lender may want to know if you have experience managing property.
- **Duplex, triplex or fourplex.** Structure with two, three or four homes attached to each other on a single lot, either with common sidewalls or stacked one above the other.
- **Townhouse.** In some markets, this is also known as a row house. This may consist of three or more single-family units attached by adjoining walls. You will probably have a party wall agreement with your neighbor indicating that you will equally share in the costs of repairs of the wall, if needed.
- **Planned unit developments.** In this housing arrangement, part of the maintenance fee goes to the upkeep of the community. There are usually rules and regulations that are applicable and, in many instances, they require a homeowners' association (HOA) fee that is an additional cost. When this is the case, this additional cost is considered when a mortgage lender qualifies you for a mortgage.
- **Condominium.** A home that is attached to another home and shares common areas — such as grounds, lobbies and hallways — with the other owners in the development. Condominiums may be a townhouse or apartment style. Each owner makes decisions about repairs inside his or her home, but there are rules that control some of the things that owners can and cannot do with their homes. The homeowners' association, a group of elected homeowners in the development, makes communal decisions and pays to maintain and repair any land and common areas. The condominium owner pays a homeowners' association fee that is an additional cost. This may include not only maintenance and repairs, but also property taxes, homeowner's insurance, landscaping, water, some utilities and extra money for a reserve account to pay for major repairs. HOA fees are included in the qualification for a mortgage payment. Before buying a condominium, read the offering plan, which includes all rules and regulations, plus information about the finances and structures.
- **Cooperative (co-op) apartments.** If you buy a co-op apartment, you do not own the unit in which you live. Rather, you own shares of a corporation. The corporation owns both the property's living units and the common areas. Membership in the corporation gives you the right to occupy a housing unit. In some co-ops, all repairs and decisions are made by the co-op board, which is a group of appointed members similar to a condominium homeowners' association. In others, the people that live in the units make decisions and repair the apartments they live in. Like condominiums, co-ops have rules and regulations, and the shareholder pays a co-op maintenance fee that includes pro-rated property taxes, homeowner's insurance, landscaping, water, some utilities and extra money for a reserve account to pay for major repairs. Ask your attorney to review the offering plan before you purchase a co-op, especially the section about the underlying mortgage. This is the corporation's first mortgage for which you have a pro-rated share of the monthly payments included in your monthly maintenance fee. As with condominiums, the lender includes the monthly maintenance fee in the calculation of monthly housing payment. Co-ops may have restrictions about how you may sell your shares and what the shares are worth. To buy into a co-op, you have to be approved by the co-op board. When you decide to move out, the co-op board also must approve the buyer to whom you want to sell your shares. There are more restrictions involved in living in a co-op than a condo, and it is important to fully understand the pros and cons of each.

- **Manufactured homes.** These houses are built in factories according to federal standards established by the U.S. Department of Housing and Urban Development (HUD). The complete house or sections are transported to a retailer for display and sale. The house has a structural frame, called a chassis, that supports the complete unit of walls, floor and roof.
- **Modular housing.** These are factory-built units with on-site assembly and some on-site construction. Modular homes are built to meet state and local codes and do not have a chassis.
- **Land-lease.** In some areas where land costs are very high, some builders save money by building houses on land that is leased, instead of paying for the purchase of land. Land-lease agreements are common on land owned by Native Americans and in manufactured housing communities. When you buy a home on a land-lease property, you own the home and rent the land beneath it. Some lease fees are fixed, while others have escalating clauses that allow fees to rise based on the cost of living index or some other index. Most land-lease agreements have a duration of 60 to 90 years. During the term of the lease, you act as the owner and usually there are no restrictions about how you use your property. The fact that the land is leased does not limit the way you enjoy your property, but it may affect the resale value of the property as the end of the lease period gets closer.

## Location, location, location

Usually, location is the factor that most affects the value of the home. The majority of homebuyers are prepared to sacrifice certain features in order to be able to purchase a home in the area or neighborhood that they prefer. This is a very important insight, because you can almost always make some adjustments or do some remodeling — such as adding another room or putting a pool in the backyard — to have everything you desire in your home. But once you move into your home, it doesn't matter how many improvements you make, you won't be able to move this home from the city to the suburbs, or from the west side to the east side of the city.

## What to look for in a neighborhood

There is no one neighborhood that is right for everyone. When you are looking at communities, here are some criteria you should consider:

- What are the schools like?
- What is the neighborhood like?
- Is it close to shopping?
- Is it near my/my spouse's work location?
- Is it near my/my spouse's family and friends?
- Is it close to parks and recreation areas?
- What are the crime statistics for the area?
- Are any new developments planned nearby?

## Evaluating the homes you see

Once you've decided which features you want in a home and which neighborhoods you want to consider, begin to view homes for sale with your real estate agent. During this period, it's important that you make a thorough evaluation of the properties that you visit. Inspect each home, evaluating each characteristic that you consider important. Feel free to take pictures or video so that you can remember what you liked or disliked in each home, and make sure that you keep detailed notes on your *Home features checklist* on page 54.

## Inspect before you select

When you finally find the home you want to own, it's very important that you inspect it from top to bottom. Sellers sometimes cover major flaws with paint or wallpaper so that buyers won't notice any damage. In any case, a professional home inspector should evaluate the home prior to your purchase. Ask your real estate agent to recommend a professional with many years of experience. The inspector should give you a written evaluation of the home and recommend any repairs that are necessary. If you have any doubts about the inspection, ask for a second one.

### The professional home inspector

As soon as your offer to buy is accepted, make an appointment with a professional home inspector. The inspector checks the soundness of the property. In order to better understand the results, you should accompany the inspector during the examination of the property. The purchase and sales agreement should stipulate that the home must pass a property inspection and that you can cancel the sale if the inspection shows any material problems. If any material problems are discovered, you then have the option to ask the seller to make or pay for the repairs. Discuss your options carefully with your real estate professional. Remember, finding a responsible home inspector is key.

### Why a professional inspection is so important

The inspection of a home is a very important step since it can identify any flaws the home or property might have, minor or major, before you close on the home and become responsible for the cost of repairs. It's a good idea to be present during the inspection so you can ask any questions you might have and become aware immediately of any problems.

### Check items inside and out

The home inspector shouldn't be the only one to check out your house. You, too, should inspect the property, taking into account the age of the house. Flush the toilets, turn on all the lights and check the windows to make sure they operate smoothly. Ask about the condition of the electrical system, the plumbing, the heating and air conditioning. Be sure to follow up on other important features outside the house, such as the roof, pool and irrigation system.

### Rethink the features of the house

Revisit your list of characteristics one more time. It is important to feel confident that your requirements — for instance, enough bedrooms and extra space — are being met. Make sure that you really like the design of the home as well.

### Determining what to offer

Before you make an offer, you need to determine how much the home is really worth to you. Your real estate agent can help you by providing information about other homes in the neighborhood that have sold recently. This way, you can compare the selling prices of these homes, which should help you feel confident that you're offering a fair and sufficient amount.

Before making an offer on a home, get to know the neighborhood. Visit the area during different times of the day and night. Meet your potential neighbors and ask them about the neighborhood. Reconsider the amount you are willing to offer to purchase the home, so that you are really sure that it is worth the price. Once you've done all of this, you can go ahead and make your offer.

## It’s time to make an offer

When you’re ready to make an offer, your real estate agent should prepare a purchase contract. This is the document your agent or attorney will use to present to the seller, in which you offer a price and state any conditions you have for the purchase. If you’re in a state that requires a real estate attorney, this is when they start working with you.

### The purchase contract

Your real estate agent will prepare the purchase contract. The contract should include:

- The price of the property
- The amount of “earnest money” or “good faith money” you will put down, which is normally from $1,000 to 5% of the purchase price
- Who will hold that money during the escrow period, which is the time between the signing of the contract and the day of the closing
- The legal names of all buyers and sellers
- The address and exact location of the house
- The date of the closing

Make sure that the closing date is acceptable to both you and the lender, because failure to close on that date may result in the loss of your earnest money. Once it is prepared, you need to review the purchase contract before it is presented to the seller. Make sure it is completely filled in before you sign it. The purchase contract should also include:

- The dates when the inspection and final walk-through should be done
- How you will pay for the house
- Any contract contingencies for obtaining loan approval — for example, a 30-year fixed-rate loan not to exceed 7.0%
- A list of any property the seller agrees to leave in the house. This list must be specific. For instance, the purchase contract can’t just list “a chandelier.” It must contain the exact description of it, or you may end up with a cheap replacement fixture on the ceiling instead.
- All contingencies that must be resolved, or you will be able to cancel the contract at no cost
- A breakdown of who is responsible to pay for the closing title, loan and escrow expenses as well as the cost of any required inspections and/or repairs
- A time limit for the seller to accept the offer — preferably within 24 to 48 hours

These are just some of the important details that should be contained in the purchase contract. Your real estate agent and/or real estate attorney should guide you through other contract details and provisions to consider.

### Contract negotiation

There are not many transactions that proceed without negotiation. It’s common to bargain with the seller about the price of the house. If the seller likes the offer, it will be accepted on the spot. This is called acceptance. If the offer is not accepted, the seller will give you a counteroffer asking you for a higher price or some other change in the sales contract, for example, specifying that the house will be sold without the new washer and dryer. This information will be brought back to you by your real estate professional as many times as needed, until you and the seller agree to a price or the seller rejects your offer with or without negotiation. Ultimately, the amount you are willing to pay is your decision, but your real estate professional should guide you in the negotiation process.

## Wrap-up: Finding the right home is no accident

Congratulations. You have explored the path to successful homeownership. Now you know that finding the home that best meets your criteria takes an investment in preparation and time. Here's the process in a nutshell:

- Select a real estate professional — sometimes called a real estate agent or real estate broker. Remember, one of the best places to start this process is by asking your friends and family for their recommendations and personal experiences.
- Find a mortgage lender. Make sure that you look for someone who has a good reputation with other customers, local real estate agents, settlement attorneys/agents and friends and relatives.
- Search for the right home for you. It is a good idea to make sure that the home is located for easy access to your work, gym, school, favorite park or any other place that is important to you. When you are comparing homes, base it on what is most important to your needs.
- Make an offer that you are comfortable with on the home of your choice. The prequalification letter from your mortgage lender will show you the maximum amount of home that you can afford; however, you don't have to buy a home equal to this amount. Consult with your real estate professional when you are about to make an offer.

Wherever you are in the home buying process, we hope you are on your way to determining the home that best suits your needs. Use this section as a reference when you begin the home search process. You can also visit our website at bankofamerica.com/homeloanguide for more information.

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## What successful homeowners should know

### How to make your monthly loan payments

Soon after the closing and receipt of your loan, you will receive a letter from your lender with monthly payment instructions and an explanation of your responsibilities as a borrower. When you make a payment, be sure to:

- Send your payment so that it arrives on or before the due date. Late payments are typically assessed a substantial monetary penalty and late payments negatively affect your credit score, so avoid being late. Even one late payment can affect your credit score.
- Never send cash in the mail.
- Write down your mortgage loan account number on your check or money order.

Consider signing up for automatic payment with your lender. With this plan, the exact monthly payment is withdrawn from your bank account once a month and credited to your loan. This is not only convenient for you, it ensures that your payments will always be on time. Some lenders may charge a fee for this service, or some lenders may offer a reduced interest rate for automatic payments. Be sure to check with your lender before signing up. Many lenders have websites where their customers can easily make their monthly payments online; ask your lender for details.

Remember, a fully amortizing monthly payment includes the principal, interest and private mortgage insurance if it is required, and it is likely to include homeowner's insurance and taxes (PITI). If you purchase a condominium or a co-op, the homeowner's insurance and taxes may be paid through the homeowners' association.

### If you have problems making your payment

Sometimes unforeseen circumstances, such as a job loss or serious illness, may make it difficult to make your home loan payment. When this happens, the first thing you should do is call your lender. Home retention specialists are there to listen to you and to try to help in any way they can. For more information about foreclosure prevention, visit bankofamerica.com/homeloanhelp. Remember, it's very important to make your payments on time and for at least the amount due if you want to protect your credit. If you decide to buy another home in the future, a good credit history will be very useful.

### Avoid losing your home to foreclosure

If there's a possibility you won't be able to make mortgage payments because of circumstances beyond your control, seek help immediately. Contact your lender as soon as you can, because most lenders will work with borrowers in need and the earlier you contact them, the more options you may have. If you don't want to speak directly to your lender, there are many non-profit housing counseling organizations that have expert staff to assist you. Foreclosures are a losing proposition for both the borrower and the lender, so all sides are motivated to work something out. Contact your lender early, and keep in contact with them until the problem is resolved.

Beware of foreclosure scams that target homeowners in foreclosure. One common scam involves bail-out specialists who offer to let homeowners stay in their homes if they transfer their property deeds to a third party. Although homeowners are told they will be able to buy their homes back at a later date, this usually doesn't happen and they are evicted instead. These schemes never work to the benefit of homeowners and involve fraud and deception. Before working with any party who is not your lender, do your homework and check out the company's reputation, licenses and business practices to ensure you are working with legitimate and reputable companies. Visit hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

### What to do if your home is damaged

If your home is damaged by fire or some other occurrence that is covered in your homeowner's insurance policy, call your insurance agent and file a claim immediately. A claims adjustor will do an inspection of the property to determine the cash value of the damages. Depending on the extent of damage to your dwelling, the insurance company may make out a check, jointly issued to you and the lender. Call the lender to ask about the proper procedure to negotiate any checks made out to you and your lender.

### Other responsibilities for homeowners

Your loan requires that you keep your property in good repair. This requirement exists to protect your investment and to help preserve the value of your property, if you decide to sell your house one day. When you hire someone to make repairs or improvements, it's a good idea to use licensed contractors. This is another occasion when you should do your homework, checking out the reputation, experience and certifications of any contractors before you hire them.

### Be prepared for additional costs

When you buy a home, be prepared for certain additional costs that all homeowners have, such as electricity, gas, trash collection, water and sewer service, and yard maintenance. Also, make sure to have cash on hand or in savings in order to quickly repair structural damage or to repair or replace such necessities as fixtures, appliances, heaters, air conditioning or plumbing.

### Keep your investment safe

Once you are a homeowner, you should adjust your budget according to your new obligations and avoid taking on unnecessary debt that could jeopardize your financial future. Keep up with preventative maintenance to avoid expensive repairs in the future. To protect against loss, make certain you have adequate coverage in your homeowner's insurance.

## Wrap-up: After you move in

Once you close on your mortgage loan and sign all of the documents at the settlement agent's office, you become a homeowner. So, what's next? Here are a few things to do that can help ensure your continued enjoyment of your home as the years go by:

- Make sure to continue your money management and credit-building strategies. Now that you own your home, it is extremely important that you continue to practice the strategies that got you here. Make sure that you send your mortgage loan payment on time every month.
- Keep a list of all of the documentation that you have amassed throughout the home buying process in a secure place. Make sure this list includes the name and contact information of your homeowner's insurance provider so that you will have this information in the event that your home is damaged. Also, keep your mortgage lender's, real estate professional's and settlement agent's contact information handy. Don't forget to pass on the names of your home buying team to your friends and family if you had a good experience.
- Make an inventory of all of the home maintenance items that you need to monitor, including the item and its age. List structural items and equipment, such as the roof, water heater, air conditioner, air filter and others. You want to stay ahead of preventative maintenance so that you aren't surprised by the cost of unexpected repairs.

Owning a home can be very rewarding, a source of great pride and satisfaction. Anyone who puts the effort into the process deserves congratulations when his or her homeownership goals are achieved. We hope this guidebook has helped put you on your way to that success.

# Conclusion


Conclusion

# Conclusion

We hope that this easy-to-follow workbook has enlightened you about the process of becoming a homeowner. Although all the information and the tasks involved in purchasing a home can be daunting, don't get discouraged. If your goal is to become a homeowner, this workbook will help guide you in achieving that goal.

To further your knowledge about home buying, we recommend you continue to gather information from other sources. Another good resource is bankofamerica.com/homeloanguide.

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# Appendix

# Appendix

## I. A simple guide to home buying terms

There are many terms and acronyms used to discuss mortgages and the application process. To help you feel confident when you're buying a home, here's a glossary of the terms you'll hear during the home buying process.

# A

### Actual Cash Value
Insurance that reimburses you for the replacement value of the insured items minus depreciation.

### Adjustable-Rate Mortgage (ARM)
A mortgage or home equity loan in which your interest rate and monthly payments may change periodically during the life of the loan, based on the fluctuation of an index. Lenders may charge a lower interest rate for the initial period of the loan. Most ARMs have a rate cap that limits the amount the interest rate can change, both in an adjustment period, and over the life of the loan.

### Amortization
The gradual repayment of a mortgage by installments. The installments are calculated so the obligation will be paid off by the end of the fixed period.

### Amortize
To repay a loan with regular payments that cover both principal and interest.

### Annual Percentage Rate (APR)
The total cost of a mortgage stated as a yearly rate. This includes such items as a base rate, loan origination fee (points), commitment fees, prepaid interest and other credit costs that may be paid by the borrower.

### Appraisal
The report made by a qualified evaluator, in which he or she gives an opinion of the market value of a property.

### Appraised Value
An opinion of value reached by an appraiser based upon knowledge, experience and a study of data related to the property.

### Appreciation
An increase in the value of real estate property.

### Assessor
County official who determines the value of property for tax purposes.

### Assumable Mortgage
A mortgage that can be taken over (assumed) by the buyer when a home is sold.

### Assumption Fee
Lender's charge for changing over and processing new records for a buyer who is assuming an existing loan.

# B

### Balloon Payment
The final lump sum payment that is made at the end of the term to pay off a balloon loan in full.

### Basis Point
This term is commonly used to express changes in interest rates. One basis point equals 0.01%. For example, to go from a 6.25% interest rate to a 6.125% rate is a reduction in 12.5 basis points.

### Bill of Sale
The instrument by which title to personal property is transferred or conveyed.

### Binding Agreement
A binding agreement requires the mover to honor its original quote based on your list of items to be moved.

### Buydown
A temporary buydown is a mortgage on which an initial lump sum payment is made by any party to reduce a borrower's monthly payments during the first few years of a mortgage. A permanent buydown reduces the interest rate over the entire life of a mortgage.

# C

### Capital
The amount of cash and other liquid assets a person has.

### Cash Reserve
The cash that buyers have remaining after closing. Traditionally, lenders have required borrowers to have reserves equal to two mortgage payments.

### Clear Title
A title that is free of liens and legal questions about the ownership of a property.

### Closing Costs
Various expenses over and above the price of the property that are incurred by buyers and sellers in transferring ownership.

### Collateral
An asset, such as a car or a home, that is pledged as security for the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract or promissory note.

### Combo Loan
A financing option that offers the borrower a first and second mortgage. Commonly referred to as an 80/10/10 or piggyback loan.

### Community Property
Property acquired jointly by a husband and wife during their marriage. In many states, each spouse has equal rights, including the right of survivorship.

### Conditional Approval Letter
A formal offer by a lender stating the terms under which it agrees to lend money to a homebuyer.

### Condominium
An apartment building or multiple-unit housing area in which the living units are owned individually.

### Construction Loan
A short-term, interim loan to finance the cost of building a new home. The lender makes payments to the builder at periodic intervals as the work progresses.

### Consumer Financial Protection Bureau (CFPB)
Formed as a result of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the CFPB helps ensure consumers get the information needed so they can to make the best financial decisions for themselves and their families. This includes pricing that is clear and up front, identifying visible risks, and ensuring that nothing is buried in the fine print. For more information visit consumerfinance.gov

### Contract of Sale
(See PURCHASE CONTRACT.)

### Convertible ARM
An adjustable-rate mortgage that can be converted to a fixed-rate mortgage under specified conditions.

### Conveyance
A written document that transfers title to real property.

### Correspondent Lenders
Financial institutions that provide mortgage products to banks, thrifts, credit unions and mortgage bankers. Clients of correspondent lenders originate, underwrite and close mortgage loans before selling them. In addition to mortgages, correspondent clients often offer other financial products and services to their customers.

### Co-Tenancy
Ownership of property by two or more persons.

### Credit Report
A report run by an independent credit agency that verifies certain information concerning an applicant's credit standing.

### Credit Score
A statistical method used to predict the likelihood that a person will repay a credit obligation, such as a mortgage loan.

# D

### Debt-to-Income Ratio
The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation for long-term debts is divided by his or her gross monthly income.

### Deed
The legal document conveying title to a property.

### Default
The failure to make a loan payment on a timely basis or to comply with other requirements of a mortgage contract.

### Discount Point
A one-time charge imposed by a lender to adjust the interest rate on a loan to the required yield. Discount points are used to "buy" the interest rate lower, also known as a "buydown." These points lower the interest rate for the entire term of the loan.

### Down Payment Assistance Programs (DAPS)
A financing option, involving a second mortgage, to assist low- to moderate-income households with the down payment and closing costs for their home. Funds for the second mortgage are provided by government housing agencies, foundations or nonprofit corporations. Payment on the second mortgage is often deferred, may carry no or low interest rate, and may be forgiven over a period of years.

## E

### Earnest Money Deposit
A deposit made by a potential homebuyer to show that he or she is serious about buying the house.

### Equal Credit Opportunity Act (ECOA)
A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, age, sex, marital status, receipt of income from public assistance programs, or exercise of rights under the Consumer Protection Act.

### Equity
The difference between the present value of the property and the balance of the mortgage that is owed on the property.

### Escrow
The holding of documents and money by a neutral third party prior to closing. Also, an account held by the lender or servicer into which a homeowner pays money for taxes and insurance.

## F

### Fair Credit Reporting Act
A consumer protection law that sets up a procedure for correcting mistakes on one's credit record.

### Federal Housing Administration (FHA)
A division of the Department of Housing and Urban Development (HUD). Its main activity is insuring residential mortgage loans made by private lenders. The FHA also sets standards for underwriting mortgages.

### Financing Concession
Fees paid by the seller to facilitate a transaction. Frequently, these costs are simply added on to the sales price and result in a price higher than true market value.

### First-Lien Mortgage
A mortgage that has priority over all other liens or claims on a property and will be paid first in the event of default. Also called first mortgage.

### Fixed-Rate Mortgage
A mortgage in which the interest rate does not change during the entire term of the loan.

### Foreclosure
The process by which a mortgaged property may be sold when the mortgage is in default.

## G

### Good Faith Estimate (GFE)
A written estimate, provided by the lender, of all the costs that are involved in both securing the mortgage loan and settling on the property.

### Government National Mortgage Association (GNMA)
Also known as "Ginnie Mae." An organization that provides sources of funds for residential mortgages, insured or guaranteed by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

### Grant
A transfer of real estate between individuals by deed.

# H

### Hazard Insurance
Insurance to protect the homeowner and the lender against physical damage to a property from fire, wind, vandalism or other causes.

### Home Equity Loan
A loan based on the available equity in the borrower's home.

### Home Inspection
A thorough inspection that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

### Homeowners Association Dues
A fee (usually paid monthly) by a homeowner to a homeowners association for the care of areas owned in common by all homeowners within a planned unit development.

### Homeowners Warranty
A type of insurance, usually offered by the seller, that covers repairs to certain parts of a house for a specific period of time.

### Homeowners Insurance
Insurance that covers physical damage to a property from fire, wind, vandalism or other hazards. The policy typically combines personal liability insurance and property hazard coverage for a dwelling and its contents.

### Housing Counseling Agency
An organization that provides education and counseling to prepare consumers for homeownership.

### HUD Median Income
Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development.

# I

### Impound Account
Also called an escrow account or a Tax and Insurance Reserve (TIR), this account is required by the lender when it handles such payments as property taxes, mortgage insurance, hazard or flood insurance on behalf of the borrower.

### Initial Interest Rate
The original interest rate of a mortgage at the time of closing. Sometimes known as a "start rate" or "teaser rate," this rate changes over the term of an adjustable-rate mortgage.

### Installment Loan
Borrowed money that is repaid in equal periodic payments, known as installments.

### Interest
The fee charged for borrowing money.

### Interest Rate Cap
A provision of an ARM limiting how much interest rates may increase per adjustment period. (See also LIFETIME RATE CAP.)

### Investor
With regard to mortgages, any person or institution that buys mortgage loans from lenders. By purchasing mortgage loans, the investor gives the lender funds that can be used for more lending.

# J

### Joint Tenancy
A form of co-ownership giving each tenant equal interest and equal rights in the property, including the right of survivorship.

# L

### Late Charge
The penalty a borrower must pay when a payment is made after the due date.

### Lease-Purchase Mortgage Loan
A financing option that allows homebuyers with low-to-moderate income to lease, with an option to buy, a home from a nonprofit organization. Each month's rent payment consists of PITI (principal, interest, taxes, insurance) payments on the first mortgage, plus an extra amount that is earmarked for a savings account in which money for a down payment accumulates.

### Lien
A legal claim against a property that must be paid when the property is sold.

### Lifetime Rate Cap
For an adjustable-rate mortgage, a limit on the amount that the interest rate can increase or decrease over the life of the loan.

### Loan Servicing
The collection of mortgage payments from borrowers. If your mortgage payment includes escrows for taxes and insurance, these are paid annually by the servicing agent.

### Lock-In
Also referred to as "rate-lock," a lock-in is a written agreement guaranteeing the homebuyer a specified interest rate provided the loan is closed within a set period of time. Usually, the lock-in also specifies the number of points to be paid at closing.

### Low-Income Census Tract (LICT)
Census tract areas determined by HUD in which the median income is 80% or less of the broader statistical area.

## M

### Margin
The amount that is added to the index to establish the interest rate for an adjustable-rate mortgage or home equity line of credit. (Subject to any contractual limitations on changes to the interest rate.)

### Maturity
The end of the loan repayment period; a specific date in the future when full payment for a loan or other credit contract becomes due.

### Monthly Assessment
Also known as unit charge. A monthly fee paid to the homeowners' association of a condominium or planned unit development (PUD) to cover the cost of maintaining common areas, insurance and other expenses associated with managing the development.

### Mortgage
A legal document that pledges a property to the lender as security for payment of a debt. In some states this is known as a Deed of Trust.

### Mortgage Banker
A company that originates mortgages exclusively for resale in the secondary mortgage market.

### Mortgage Broker
An individual or firm that takes applications, matches borrowers with lenders and receives a commission for those services.

### Mortgage Insurance Premium (MIP)
The fee paid by a borrower to the FHA or a private insurer for mortgage insurance.

### Mortgage Loan
An extension of credit at a stated interest rate for a specified term that is secured by a mortgage.

### Mortgage Note
A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time; the agreement is secured by a mortgage.

## N

### No Cash-Out Refinance
A refinance transaction in which the new mortgage amount is limited to the sum of the remaining balance of the existing first mortgage, closing costs (including prepaid items), points and the amount required to satisfy any mortgage liens that are more than one year old (if the borrower chooses to satisfy them). Other funds for the borrower's use may be included, as long as the amount does not exceed 1% of the principal amount of the new mortgage.

### Non-Conforming Loan
Any mortgage loan that does not conform to the guidelines established by Fannie Mae and Freddie Mac.

### Nontraditional Credit
Nontraditional credit is the self-documentation of payments that are not usually reported to a credit reporting agency/bureau, such as rent payments, utility bill payments, life or renter's insurance payments, medical bill payments and child care payments.

### Note Rate
The interest rate stated on a mortgage note.

# O

### Origination Fee or Point
A fee charged by a lender to cover the cost of making a mortgage loan. The origination fee is stated in the form of points. One point is 1% of the mortgage amount. (For example, $1,000 on a $100,000 loan.)

# P

### Payment Cap
A provision of some ARMs limiting how much a borrower's payments may increase no matter how much the interest rate increases; may result in negative amortization.

### Periodic Rate Cap
The maximum amount the interest rate can change over a short period of time or interim.

### Planned Unit Development (PUD)
A project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

### Preapproval
A conditional commitment by a lender to provide a specific loan amount to a borrower. A preapproval is based on a preliminary review of the individual's credit. It usually requires more documentation than a prequalification, but less documentation than an approval.

### Prequalification
An informal estimate of how much house a borrower can afford. The lender uses unverified information to provide the estimate.

### Prepayment
The payment of a debt before it becomes due.

### Prepayment Penalty
A fee that may be charged to a borrower who pays off a loan before it is due.

### Principal
The amount borrowed or remaining unpaid on a loan; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

### Private Mortgage Insurance (PMI)
Insurance written by a private company protecting the mortgage lender against financial loss when a borrower defaults on the mortgage.

### Processor
The person who requests the borrower's credit report and collects and verifies all personal information during the loan approval process.

### Purchase Contract
An agreement entered into for the sale and purchase of property. Title of record remains in the name of the seller pending payoff in full by the buyer.

# Q

### Qualifying Ratio
Calculations that are used in determining whether a borrower can qualify for a mortgage. Two separate calculations are involved: housing expense as a percent of income and total debt obligations as a percent of income.

# R

### Real Estate Agent
A person licensed to negotiate and transact the sale of real estate on behalf of the owner or buyer.

### Real Estate Settlement Procedures Act (RESPA)
A consumer protection law that requires lenders to give borrowers advance notice of estimated closing costs. Lenders are required to disclose whether the servicing of the loan may be assigned, sold or transferred to any other person at any time while the loan is outstanding.

### Replacement Cost Coverage
An insurance policy that covers the full cost of replacing damaged property without taking depreciation into consideration.

# S

### Second Home
Single-family property that the borrower occupies in addition to his or her primary residence. It is suitable for year-round occupancy. It cannot be income-producing.

### Second-Lien Mortgage
A mortgage such as a home equity loan or line of credit that is not a first mortgage, and is second in line in the event of default. Also called second mortgage.

### Seller Carryback
An agreement in which the owner of a property provides financing, often in combination with an assumed mortgage.

### Settlement
(See CLOSING COSTS.)

### Shared Appreciation Mortgage (SAM)
A mortgage in which a borrower receives a below-market interest rate, in return for which the lender (or another investor such as a family member or other partner) receives a portion of the future appreciation in the value of the property. May also apply to an arrangement in which the borrower shares the monthly principal and interest payments with another party in exchange for part of the appreciation.

### Subordinate Financing
Any mortgage or other lien that has a lower priority than that of the first mortgage.

# T

### Tax Lien
A lien against a property for unpaid taxes.

### Term
The period of time over which a loan is paid.

### Title
A legal document evidencing a person's right to ownership of a property.

### Title Insurance
Insurance to protect the lender (lender's policy) or the buyer (owner's policy) against any loss that may arise from disputes over ownership of property.

### Townhouse
A building type in which units are attached side by side, not built above other units. They may be condominiums or PUDs, depending on their legal definitions.

### Traditional Credit
A traditional credit history is created when you borrow money from financial institutions and the credit accounts are reported to one or more of the credit reporting agencies. Traditional credit is what most people are referring to when they say the terms "credit," "credit report" or "credit score."

### Truth in Lending (TIL) Disclosure
A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.

# U

### Underwriting
The process of evaluating a loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's creditworthiness and the quality of the property itself.

# V

### VA Loan
A mortgage that is guaranteed by the Department of Veterans Affairs (VA). Also known as a "government loan."

### Variable Rate
An interest rate that changes periodically, usually based on movements of an interest rate index.

| Type of Loan | Description | Special Features | Consideration | Best Suited For |
|---|---|---|---|---|
| **Conventional Loans** | | | | |
| **Fixed-rate: 15-year** | Stable monthly payments of principal and interest for 15 years | Less total interest paid. Slightly lower interest rate. Builds equity faster. | Smaller tax deduction. Higher monthly payment. | Borrowers planning for retirement, who want early pay-off, to pay less lifetime interest and prefer stability of fixed payment. |
| **Fixed-rate: 30-year** | Stable monthly payments of principal and interest for 30 years | Lower monthly payment than a 15-year loan. | More interest paid over the life of the loan. | First-time homebuyers and others who plan to stay in the home a long time and prefer the stability of fixed payments. |
| **Fixed-period ARM** (also called a hybrid loan) | Payment set for first 3, 5, 7 or 10 years | Typically a lower starting interest rate. Stable payment for set number of years. Adjustable rate after the fixed period. | Converts to an ARM after fixed period. May result in increased monthly payments after the fixed period. | Borrowers who will stay in the home for a limited time, who need a lower initial rate and intend to refinance or move before the adjustment period. They are comfortable knowing there may be an increase in the payment amount in the future. |

| Type of Loan | Description | Special Features | Consideration | Best Suited For |
|---|---|---|---|---|
| **Government Loans** | | | | |
| **FHA loan** | Insured by Federal Housing Administration (insures the lender, not the borrower) | 3.5% for down payment and closing costs and up to 6% seller contribution allowed. Fixed-rate loans and ARMs available. | Maximum loan limits set by geographic area. Two types of mortgage insurance. | Borrowers needing a lower down payment. Can be a good fit for first time homebuyers. |
| **Renovation Lending** | FHA 203(k) purchase and renovation[1] | 3.5% minimum down payment. | Maximum loan limits set by geographic area. Two types of mortgage insurance. | Borrowers who want to buy a house in need of renovation and need all costs rolled into one loan. |
| **VA loan** | Guaranteed by Department of Veterans Affairs[2] | As little as zero down payment and flexible guidelines. Up to 4% seller contribution allowed. Fixed-rate loans and ARMs available. | Maximum loan limits set by geographic location. Veterans only. Funding fee required. | Veterans or active duty members of the U.S. military and some military widows. |
| **Affordable Housing Assistance Programs** | | | | |
| **Down Payment and Closing Cost Assistance Programs** | Down Payment and Closing Cost Assistance Programs to help qualified borrowers with down payment and/or closing costs | Must qualify based on program guidelines and may require homebuyer education. Must receive a government loan. | Not available in all locations. | First time and modest income homebuyers. |

# III. References

## Resources and Publications

- Fannie Mae®: **www.fanniemae.com**
- Freddie Mac®: **www.freddiemac.com**
- Federal Deposit Insurance Corporation: **www.fdic.gov**
- Housing and Urban Development: **www.hud.gov**
- NeighborWorks® America: **www.nw.org**
- National Foundation for Credit Counseling: **www.nfcc.org**

## IV. Check your knowledge — True or false

| Getting Comfortable with Homeownership | True | False |
|---|---|---|
| There are advantages and benefits to homeownership. If true, name one. (See page 1.) | | |
| The down payment is the only money I will need for a mortgage transaction. (See page 9.) | | |
| If I qualify, I could get down payment and/or closing cost assistance. (See page 10.) | | |
| You need to speak with relatives to determine how much you can afford. (See page 10.) | | |
| **Understanding Credit** | **True** | **False** |
| It doesn't matter if I don't pay my debts on time. There are no benefits or cost savings for maintaining good credit. (See page 11.) | | |
| Installment loans, revolving loans and 30-day open agreements are reported by lenders to the credit reporting agencies and are part of traditional credit. (See page 12.) | | |
| A nontraditional credit history is accepted by some lenders with verification of payments, such as rent, utilities, child care and other bills that are paid monthly. (See pages 12–13.) | | |
| I can correct errors on my credit report by contacting the credit reporting agency and sending proof that identifies the errors. (See page 15.) | | |
| If I can't make a monthly payment on time, I should contact my creditor as soon as possible. (See page 15.) | | |
| **Applying for a Loan** | **True** | **False** |
| All traditional mortgages are insured by the government. (See page 22.) | | |
| A conforming loan is called conforming because it meets the basic guidelines established by Fannie Mae and Freddie Mac. (See page 22.) | | |
| An adjustable-rate mortgage (ARM) usually offers borrowers a lower starting rate than a fixed-rate loan. (See page 23.) | | |
| I don't need to compare mortgages. There are many mortgage products and they are all good. (See pages 24–25.) | | |
| **Finding a Home** | **True** | **False** |
| The home buying team includes a home inspector. (See page 31.) | | |
| You should check to see if your state requires an attorney. (See page 32.) | | |
| Mortgage brokers are loan finders; they do not lend their own money. (See page 32.) | | |
| Real estate professionals do not have to be licensed or certified. (See page 33.) | | |
| Before you begin searching for a home, it is important that you decide what characteristics you want in your home. (See pages 33–35.) | | |

## IV. Check your knowledge — The answers

| Getting Comfortable with Homeownership | True | False |
|---|---|---|
| There are advantages and benefits to homeownership. If true, name one. (See page 1.) | X | |
| The down payment is the only money I will need for a mortgage transaction. (See page 9.) | | X |
| If I qualify, I could get down payment and/or closing cost assistance. (See page 10.) | X | |
| You need to speak with relatives to determine how much you can afford. (See page 10.) | | X |
| **Understanding Credit** | **True** | **False** |
| It doesn't matter if I don't pay my debts on time. There are no benefits or cost savings for maintaining good credit. (See page 11.) | | X |
| Installment loans, revolving loans and 30-day open agreements are reported by lenders to the credit reporting agencies and are part of traditional credit. (See page 12.) | X | |
| A nontraditional credit history is accepted by some lenders with verification of payments, such as rent, utilities, child care and other bills that are paid monthly. (See pages 12–13.) | X | |
| I can correct errors on my credit report by contacting the credit reporting agency and sending proof that identifies the errors. (See page 15.) | X | |
| If I can't make a monthly payment on time, I should contact my creditor as soon as possible. (See page 15.) | X | |
| **Applying for a Loan** | **True** | **False** |
| All traditional mortgages are insured by the government. (See page 22.) | | X |
| A conforming loan is called conforming because it meets the basic guidelines established by Fannie Mae and Freddie Mac. (See page 22.) | X | |
| An adjustable-rate mortgage (ARM) usually offers borrowers a lower starting rate than a fixed-rate loan. (See page 23.) | X | |
| I don't need to compare mortgages. There are many mortgage products and they are all good. (See pages 24–25.) | | X |
| **Finding a Home** | **True** | **False** |
| The home buying team includes a home inspector. (See page 31.) | X | |
| You should check to see if your state requires an attorney. (See page 32.) | X | |
| Mortgage brokers are loan finders; they do not lend their own money. (See page 32.) | X | |
| Real estate professionals do not have to be licensed or certified. (See page 33.) | | X |
| Before you begin searching for a home, it is important that you decide what characteristics you want in your home. (See pages 33–35.) | X | |

## V. Home features checklist

| Item Considered | Want | Need | Priority #1 | Priority #2 | Priority #3 |
|---|---|---|---|---|---|
| **Neighborhood** | | | | | |
| City | | | | | |
| Suburbs | | | | | |
| Rural | | | | | |
| Near public transportation | | | | | |
| Near schools | | | | | |
| Near shopping | | | | | |
| Near house of worship | | | | | |
| Near fire station | | | | | |
| Away from flood zone | | | | | |
| **Type of home** | | | | | |
| Single-family, one level | | | | | |
| Single-family, two levels | | | | | |
| Townhouse | | | | | |
| Duplex (two units) | | | | | |
| Condominium | | | | | |
| Contemporary | | | | | |
| Garage | | | | | |
| Carport | | | | | |
| Deck or patio | | | | | |
| Porch | | | | | |
| Large yard (more than ½ acre) | | | | | |
| Small yard | | | | | |
| **Age and construction** | | | | | |
| Brand new | | | | | |
| Less than 15 years old | | | | | |
| More than 15 years old | | | | | |
| Brick | | | | | |
| Wood | | | | | |
| Vinyl siding | | | | | |

| Item Considered | Want | Need | Priority #1 | Priority #2 | Priority #3 |
|---|---|---|---|---|---|
| **Home features** | | | | | |
| Four or more bedrooms | | | | | |
| Two or three bedrooms | | | | | |
| One bedroom or efficiency | | | | | |
| One to one-and-a-half baths | | | | | |
| Two or more baths | | | | | |
| Den or family room | | | | | |
| Eating space in kitchen | | | | | |
| Separate dining room | | | | | |
| Finished basement | | | | | |
| Unfinished basement | | | | | |
| Hardwood floors | | | | | |
| Wall-to-wall carpet | | | | | |
| Fireplace | | | | | |
| Air conditioning | | | | | |
| Ceiling fans | | | | | |
| Washer and dryer | | | | | |
| Refrigerator | | | | | |
| Electric stove | | | | | |
| Gas stove | | | | | |
| Dishwasher | | | | | |
| Electric heat pump | | | | | |
| Gas furnace | | | | | |
| Radiators | | | | | |
| Energy-efficient appliances | | | | | |
| Sewer connection | | | | | |
| Septic system | | | | | |
| Other | | | | | |

## VI. Mortgage loan shopping worksheet

| Lender Information | Lender 1 | | Lender 2 | |
|---|---|---|---|---|
| Name of lender | | | | |
| Name of contact | | | | |
| Date information obtained | | | | |
| Mortgage amount | | | | |
| **Basic Information about the Loan** | **Mortgage 1** | **Mortgage 2** | **Mortgage 3** | **Mortgage 4** |
| Type of loan (fixed-rate, variable-rate, conventional, FHA, other) | | | | |
| Minimum down payment required | | | | |
| Loan term (length of loan) | | | | |
| Contract interest rate | | | | |
| Annual Percentage Rate (APR) | | | | |
| Points or discount points | | | | |
| Monthly PMI payments (private mortgage insurance) | | | | |
| How long the PMI must be kept | | | | |
| Estimated monthly escrow for taxes and insurance | | | | |
| Estimated total monthly payment (including principal, interest, taxes, insurance and PMI) | | | | |
| **Fees*** | | | | |
| Application fee | | | | |
| Origination fee | | | | |
| Lender fee | | | | |
| Appraisal fee | | | | |
| Attorney fees | | | | |
| Recording fee | | | | |
| Mortgage broker fees (may be quoted as points, origination fees or interest rate add-on) | | | | |
| Credit report fee | | | | |
| Other fees | | | | |
| **Other Costs at Closing/Settlement** | | | | |
| | | | | |
| | | | | |

*Different lenders have different names for similar fees. These are some of the typical fees you may see on loan documents.

| Other Questions and Considerations | | | | |
|---|---|---|---|---|
| Can any of the fees or costs be waived? | | | | |
| **Prepayment Penalties** | | | | |
| Is there a prepayment penalty? If so, how much is it? | | | | |
| How long does the penalty period last? (Three years? Five years?) | | | | |
| Are extra principal payments allowed? | | | | |
| **Lock-ins** | | | | |
| Is the lock-in agreement in writing? | | | | |
| Is there a fee to lock-in? | | | | |
| When does the lock-in occur? (At application, approval or another time?) | | | | |
| How long will the lock-in last? | | | | |
| If the rate drops before closing, is it possible to lock in at a lower rate? | | | | |
| **If the Loan Is an Adjustable-Rate Mortgage (ARM)** | | | | |
| What is the initial rate? | | | | |
| What is the maximum the rate could be next year? | | | | |
| What are the rate and payment caps each year and over the life of the loan? | | | | |
| What is the frequency of rate change and any changes to the monthly payment? | | | | |
| What is the index the lender will use? | | | | |
| What margin will the lender add to the index? | | | | |
| **Credit Life Insurance** | | | | |
| Does the monthly amount include a charge for credit life insurance? | | | | |
| If so, does the lender require credit life insurance as a condition of the loan? | | | | |
| How much does the credit life insurance cost? | | | | |
| How much lower would your monthly payment be without the credit life insurance? | | | | |
| If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers? | | | | |

## VII. Financial information checklist

Here is a list of financial information many lenders require you to submit along with the mortgage application. Discuss this checklist with your mortgage lender to make sure you know all the specific documentation required, and write down any additional information in the space provided.

### Information about you

- ❑ Pay stubs that show year-to-date earnings. Number of stubs lender requires ____________________.
- ❑ W-2 tax forms — originals or copies for the past two years.
- ❑ Employer information — names, addresses and telephone numbers for employers for the past two years.
- ❑ Copies of account statements — account numbers and current balances of checking, savings, money market and other accounts.
- ❑ Current assets — Individual Retirement Accounts (IRAs), Certificates of Deposit (CDs), 401(k), Keogh, cash value of life insurance, stocks, bonds, car (if owned in full) and other items.
- ❑ Current liabilities — auto loans, student loans, credit cards and other installment debt, including alimony or child support. Provide name and address of each creditor, the monthly payment and total amount due. You can make copies of your latest bills.
- ❑ Current housing expenses.
  - If you rent, bring the property address, name and address of the landlord and current monthly rent. If you've lived at your current address for less than two years, list previous addresses/landlords.
  - If you own a home, bring the property address, current market value, mortgage lender name, account number, current monthly mortgage payment and outstanding mortgage balance.

### Property information

- ❑ **Signed copy of purchase agreement and any amendments**
- ❑ **Copy of the listing form for the property** (Your real estate agent can provide this.)
- ❑ **Legal description of the property** (Ask your real estate attorney or closing agent to provide this.)
- ❑ **Receipt for down payment deposit**
- ❑ **Other** ________________________________________
- ❑ **Other** ________________________________________
- ❑ **Other** ________________________________________

### Verifying income if you are self-employed or work on commission

- ❑ **Copies of federal tax returns** — as many years as your lender requires, signed and dated, with all schedules
- ❑ **Current year-to-date profit and loss statement**

### Information to supply if you are separated or divorced

- ❑ **Copies of your divorce decree and separation agreement**
- ❑ **Documentation of alimony or child support** — payments you provide or receive as income. Proof can be the clerk of court's history of payments or canceled checks for the past year.

### If you are including income from disability, Social Security, public assistance or your pension

- ❑ **Copy of an award certificate or a check from the issuing agency**

### If you receive a gift (that you are not expected to repay) for down payment and closing costs

- ❑ **Copy of gift letter** — from the person giving you the gift, indicating the amount and purpose of the gift
- ❑ **Receipt for the gift** — such as a bank statement showing you deposited the money

[1] Available on a 30-year fixed rate product only. $5,000 minimum loan amount (does not apply to FHA Streamline 203(k)). The minimum down payment for single family residences must equal 3.5% of (1) the sum of the purchase price and cost of improvements, or (2) the as-improved appraised value, whichever is less. All renovation construction and/or additions financed with Section 203(k) mortgage proceeds must comply with HUD; ask for details. Where required, work must be performed by a licensed contractor. Timing of resale of property subject to restrictions. Renovation construction must begin within 30 days of closing and all work must be completed within 6 months of closing. Subject to satisfactory appraisal report(s). Not available for investment properties. Restrictions on secondary financing may apply. State restrictions may apply. Minimum credit scores apply. Not all applicants will qualify.

[2] The funding fee is higher with a zero down payment. If a down payment of 5% or more is made, the fee is reduced. The VA funding fee is non-refundable.

[3] Fannie Mae® and Community Seconds® are trademarks of Fannie Mae.



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