

THE MORTGAGE GUIDE

EVERYTHING YOU NEED TO KNOW ABOUT

FINANCING YOUR HOME

ALLIANCE HOME LOAN
60 STATE STREET #700
BOSTON, MA 02109
#617-424-1988t
#419-715-4968f
MB#2282

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WELCOME to the realm of the Mortgage and Real Estate Industry. This guide will help you navigate through the mortgage process. It takes the mystery out of financing a home by helping you understand the language used, the various entities involved and the forms that are part of the application process.

In all industries, businesses, and organizations a particular language evolves which allows clear and concise communication with those who are involved with these entities.

For example: If you were going boating you would learn the basics in the nautical language so you could communicate and understand other boaters. In this instance the goal is to recognize the industry terminology when spoken or read.

The mortgage industry is a system. A system of individuals, companies, and governmental agencies who are all focused on lending money. The mortgage lending business' system, when broken down, is basically this: the applicant needs money - and the industry (via an institution) will lend, when the applicant can meet specific guidelines.

The institutions are made up of several different players. An institution can be an individual, a bank, insurance company, a credit union, etc.

Alliance Home Loan is a broker and we have relationships with lenders who then compensate us for bringing them quality applicants. AHL will shop around with various lenders to determine which lender has the best rate and terms including closing costs for your specific needs.

I.

Conventional Financing

In this section of the guide we discuss conventional financing. Conventional financing does not include Government financing programs, such as FHA, VA, FmHA, USDA, etc. The major difference is that conventional loans are private, with no government insurance or guarantees.

Typically, conventional financing can be broken down into the following categories; Conforming and Non-Conforming

Conforming loans are those loans that are under the guidelines for sale on the secondary market, written and administered by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). As authorized by Congress and [signed into law by the White House](#), the official 2011 conforming mortgage loan size limits are, by property type:

- 1-unit properties : \$417,000
- 2-unit properties : \$533,850
- 3-unit properties : \$645,300
- 4-unit properties : \$801,950

Anything over 4-units is considered a commercial property.

Note, these maximum conforming loan limits are just a starting point. The actual loan limit varies by market.

Non-conforming -

Jumbo - The Jumbo loan family consists of all loans that exceed the conforming loan amounts set by FNMA and FHLMC.

Understanding Credit

The 4 C's of credit are Collateral, Capacity, Character, and Credit (scores). This is how a lender will determine if they can expect timely repayment.

The human underwriter has been replaced by a computer, and software programs called Automated Underwriting. The FICO credit scoring models developed by Fair Isaac Corporation play a big part in the underwriting of loans.

The loan-to value is another factor in the automated underwriting system (how much of a down payment/equity you have). The less equity or money down the higher risk you pose to the lender.

Creditworthiness or your credit history in addition to your credit score is also reflected in your credit report. Your loan may be approved in the automated underwriting system, however, if your score does not meet the minimum requirement as an example; if you need a minimum score of 720 to qualify for a particular program and you have a score of 719 sorry you may be out of luck. Check your credit and make sure that you attempt to eliminate any derogatory reference.

Another one of the 4 C's is Collateral. The appraisal is the documentation that describes the collateral in detail. The person who is responsible for the appraisal is the Appraiser. There are 3 types of appraisers. There is the Tax Assessor: whose job it is to appraise property at highest value for taxation purposes. Next there is the Bank or Lender Appraiser: whose job it is to appraise property at it's lowest value for the purposes of protecting the lender. Finally, there is the Independent Fee Appraiser - whose job it is to arrive at a Fair Market Value for the subject property. It is the job of the bank or lender to hire the appraiser for the purpose of obtaining a mortgage.

III.

The Pre-approval

Purchasing your home will be the largest financial investment you make. It is required that you have a mortgage “pre-approval” in hand when going to look at real estate. The mortgage “pre-approval” is a commitment from your broker or lender stating that your credit and employment have been verified and you are qualified to make a purchase. This little piece of paper can make the difference in your getting the home that you want. The “pre-approval” letter will let the seller of the home know that you are a qualified and serious buyer.

The loan application is extremely important. This is because the condition of the applicant (borrower) is only as good as the information on the application. In other words, the more complete the application, the better the chances of a successful approval and funding of the proposed loan. The pre-approval is an abbreviated or mini loan application requiring you provide a minimum of information and authorize your broker/lender to pull your credit report.

There are numerous reasons to start the mortgage process with a pre-approval not limited to:

- You want to learn the basics about getting a mortgage approval
- You want to know how much of a mortgage you will qualify for
- You want to know what your credit score is
- Your real estate agent requires that you have a pre-approval before going out to look at homes to buy
- You will need a pre-approval to accompany your offer

The Mortgage Pre-Approval

Complete this form either email to kdempsey@alliancehomeloan.com or fax to (419) 715-4968 and we will quickly determine the approximate loan amount you qualify for. This is not a mortgage application and by completing and returning you are under no obligation. All information will be kept strictly confidential.

Name(s): _____

Address: _____

Phone: (Hm) _____ (Wk) _____

SS#: _____ d.o.b. _____ SS#: _____ d.o.b. _____

Total Combined Income (monthly):

Base	\$ _____
OT	\$ _____
Bonus	\$ _____
Alimony/ Child support	\$ _____
Other	\$ _____
Total Income	\$ _____

Debts (monthly):

Current Mortgage/ Or Rent	\$ _____	Outstanding Bal.	\$ _____
Car Loans/Lease	\$ _____		\$ _____
Student Loans	\$ _____		\$ _____
Installment/Credit	\$ _____		\$ _____
Other	\$ _____		\$ _____
Total Debt	\$ _____	Total Outstanding	\$ _____

Available Funds/Assets:

Checking \$ _____ Savings \$ _____ Other \$ _____
Est. Net Proceeds from Sale of home \$ _____ Gift \$ _____

Credit Review Authorization: I/we authorize Alliance Home Loan to conduct a credit check for the purposes of determining my mortgage eligibility.

X _____

I/we prefer not to have a credit check done at this time and would like just a program recommendation. _____ (Please check)

IV. a

The Mortgage Application

Once you have determined the dollar amount of a mortgage you will qualify for and perhaps have been pre-approved you will want to start gathering documentation for the mortgage application (Form 1003). Your mortgage broker, lender or consultant will be working with you to make sure you have all the required documentation which goes along with your completed 1003. See application checklist below

- _____ Completed/dated/signed 1003 (residential loan application)
- _____ Mortgage Broker/Originator Fee Disclosure Form
- _____ Good Faith Estimate of Closing Costs (GFE)
- _____ Consent for Credit/Borrower Authorization Disclosure
- _____ Form 4506-T
- _____ Most Recent YTD Paystub dated within 45 days of the 1003 covering at least one month
- _____ Most Recent 2 Years W2's
- _____ Self Employed Borrowers Most Recent 2 years Federal Tax Returns with all pages
- _____ All Pages of most Recent One Month of Bank Statements (include blank pages)
- _____ All Pages of most Recent Investment Account Statements (used to qualify)
- _____ Purchase Transactions - Purchase & Sale Agreement signed by all parties
- _____ Borrower Appraisal Disclosure Form
- _____ If Property Is a Condo Provide Evidence of Condominium Association Insurance and HO6 property insurance
- _____ Additional Miscellaneous Documents May Be Required Based on the Loan Program/Lender

The Real Estate Attorney and Settlement (closing) Costs

In Massachusetts we use a real estate attorney to handle our real estate transaction once we have an accepted offer. You may be able to hire the same attorney to handle both the mortgage/bank work.

The services provided by an attorney for the purpose of your mortgage is to review the loan documents for accuracy, provide a service for signing of the loan papers, accounting for moneys involved in the transaction, and providing a final reconciliation to the applicant(s) after loan closing called a HUD-1. The attorney who will handle the mortgage closing will also order a title search on the property, examine the title and prepare a Title Opinion. They will offer title insurance which is required by the lender to protect the lender against loss resulting from claims by others against your property. There are 2 basic types of title insurance policies the one noted above required by the lender and the Owners Policy which provides protection above and beyond the lenders policy. Please discuss title insurance in depth with your attorney.

Closing Costs

The closing costs will be outlined by your broker/lender on the Good Faith Estimate (GFE) which is required within 3 days of applying for your mortgage. You can and should request a GFE or estimate of settlement costs prior to applying for a loan. This will give you an opportunity to compare costs. Although getting the lowest interest rate with a loan program that is right for you is important so are the closing costs. Fee's that may be included; application fee, processing fee, underwriting fee, loan origination or discount fee (referred to as points), appraisal fee, credit report fee, tax service fee, title search fee, title insurance fee, attorney fee, etc. Prepaid real estate taxes and property insurance will also be part of the closing costs.

Glossary

Adjustable Rate Mortgage (ARM) - a mortgage that permits the lender to adjust the rate of interest periodically based on an index

Adjustments – the changes in the selling price of a property that are made to reflect the apportionment of taxes, utilities, rents, etc., calculated at the time of the closing

Adverse Action – denial, or counter offer or credit, or the offer of credit on terms less favorable than terms requested by a credit applicant

Agent – one who represents another from whom he/she has derived authority

Agreement of sale – a written agreement or contract between seller and purchaser in which they reach a meeting of the minds on the terms and conditions of the sale

Amenity – something other than the construction materials, which increases the enjoyment, derived from a property such as good design, superior view, etc.

Amortize – to reduce debt by regular payments of both principal and interest, as opposed to interest only payments

Annual Percentage Rate (APR) - the total cost of a mortgage stated at a yearly rate (includes costs above interest rate)

Application – a request for extension of credit evidenced by supplying written personal and financial information and agreement to and assistance with verification

Appraisal - a professional opinion of the market value of the property done by an appraiser

Appreciation – an increase in the property value of a house due to changes in market conditions or other causes, such as reproduction cost, greater demand, community growth, etc.

Assets – anything owned by a company or individual, which can be used to repay debt

Binder - a preliminary agreement (offer) between a buyer and seller that includes price and terms

Cap- a term used in adjustable rate mortgages – caps will limit the increase or decrease in your interest rate or monthly payments and also may limit the interest rate over the life of the loan

Cash out refinance – transaction in which the amount of money received from the new loan is greater than what is required to satisfy the existing liens plus closing costs

Cash reserve – cash remaining after closing, a requirement of some lenders that buyers have sufficient money to make the first two mortgage payments

Clear title – a title that is free of liens and legal questions as to ownership of the property

Closing statement (Settlement statement or HUD –1) a final, detailed account prepared by a closing agent of all cash received, charges and credits involved in closing a real estate transaction which lists the final settlement between buyer and seller

Collateral – real property accompanying a mortgage as its security

Commitment - a formal offer by a lender stating the terms under which it agrees to lend money

Comparable sale – sales which have similar characteristics as the subject property and are used for analysis in the appraisal process

Condominium - a form of property ownership to include an individual dwelling and undivided interest in common areas

Contingency - a condition that must be met before a contract is legally binding

Contract – an agreement, either written or oral, to do or not do certain things

Conventional mortgage – any mortgage that is not insured or guaranteed by the federal government

Credit report – a report of an individual’s credit history prepared by a credit bureau and used by a lender in determining a loan applicant’s credit worthiness

Deed – the legal document conveying title to a property

Delinquency – a loan in which a payment is overdue but not yet in default

Deposit - a deposit to show seriousness about buying a property

Donee – a person to whom a gift is given

Donor – a person who makes a gift

Down payment - the part of the purchase price which the buyer pays in cash and does not finance with a mortgage

Duplex – a building having two dwelling units either side by side, with a common wall and roof, or one above the other

E.C.O.A. – equal credit opportunity act

Earnest money – money deposited with the offer to purchase as a partial down payment on real property to demonstrate an earnest desire to purchase

Escrow - the holding of money by a neutral third party

Escrow payment – each month, a portion of your payment is set aside by the lender in an escrow account to pay the real estate taxes and insurance(s)

Easement – a liberty, privilege, or right one has to use land for a specific purpose distinct from ownership of the soil, such as the right to cross “X” to get to “Y”

Equity – the difference between the market value of a property and the homeowner’s outstanding mortgage balance

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, or receipt of income from public assistance

Equity Loan – a loan based on the borrower’s equity in his or her home

Escrow – the holding of documents and money by a neutral third party prior to closing; also an account held by the lender into which a homeowner pays money for taxes and insurance

Escrow – the deposit instruments and funds with instructions to a third neutral party to carry out the provisions of an agreement or contract

F.I.C.O. – fair Issac and company (pertaining to credit scores)

Fair credit reporting act – a consumer protection law that sets up a procedure for correcting mistakes on one’s credit record

Fee simple – real estate, which can be bought, sold, and transferred without restrictions

Federal home loan mortgage corporation (FHLMC or Freddie Mac) – the buyer of first and second mortgages from conventionally or federally insured financial institutions

Federal national mortgage association (FNMA or Fannie Mae) buys first and second mortgages from conventionally or federally insured financial institutions as well as FHA insured and VA guarantee mortgages

First mortgage – a mortgage on a property whose rights are superior to all others

Fixed Rate Mortgage - a mortgage whereby the interest rate does not change during the entire term of the loan

Float - an interest rate that is floating with the market conditions vs. being locked in

Flood insurance – insurance required for properties in federally designated flood areas

Grant deed – a general type of deed, containing warranties, used to transfer real property

Gross income – total income before any expenses are deducted

Gross living area – a system of measuring the size of a house that is widely used by appraisers – it calls for measuring around the outside of the house above the foundation – areas that are classified as garages, porches, basements or attics are excluded from the calculations unless otherwise disclosed

Hazard insurance – insurance to protect the homeowner and the lender against physical damage to a property from fire, wind, vandalism or other hazards

Homeowner's insurance - an insurance policy that combines personal liability and hazard insurance coverage

Housing debt ratio – the proportion of total housing costs to total gross monthly income expressed as a percentage

Interest – the fee charged for borrowing money

Interest rate – the percentage of a sum of money charged for its use

Joint note – a note signed by two or more persons who have equal liability for payment

Joint tenancy – joint ownership by two or more persons with right of survivorship; all joint tenants own equal interest and have equal rights in the property

Legal description – a legally accepted method of identifying property, such as lot, block, page and subdivision or a metes and bounds description

Loan to Value Percentage (LTV) - the relationship between the unpaid principal balance of the mortgage and the appraised value or sales price

Liability – debt or obligation

Lien – a form of encumbrance, which usually makes property security for the payment of a debt or discharge of an obligation

Listing – an employment contract between principal and agent authorizing the agent to perform services for the principal involving the latter's property; listing contracts are entered into for the purpose of securing persons to buy, lease or rent property

Loan application – the loan application is a source of information on which the lender

bases his or her decision to make the loan, defines the terms of the loan contract; gives the name of the borrower and all other pertinent information to the transaction

Loan closing – and/or settlement – when all conditions have been met, the lender/funder authorizes the recording of the trust deed or mortgage

Loan servicing – the collection of mortgage payments from borrowers and related responsibilities of a loan servicer

Loan to value ratio (“LTV”) – the relationship between the amount of a mortgage and the total value of the property

Lock-in - an agreement guaranteeing a specific interest rate

Margin – used with ARM loans – the amount the lender adds to the index

Market price – the price paid regardless of pressures, motives or intelligence

Market value – 1) the price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure; 2) as defined by the courts, is the highest price estimated in terms of money which a property will bring if exposed for sale in the open market allowing a reasonable time to find a purchaser with knowledge of property’s use and capabilities for use

Mortgagee - the lender in a mortgage agreement

Mortgagor - the borrower in a mortgage agreement

Mortgage banker – an individual or company which funds loans and then sells them

Mortgage broker – an individual or company, which originates a loan and may process the loan

Mortgage differential – employer who subsidizes an employee’s mortgage payments by paying all or part of the differential between the present and proposed housing payment

Multiple Listing Service (“MLS”) – a system where a group of brokers agree to work together and cooperate to sell each other’s listings

Origination fee – lender fee to buyer for handling the loan transaction

Personal property – any property, which is not real property

PITI - principal, interest, taxes and insurance

PITI ratio – also called an “income to debt” ratio – it compares the monthly income to the

amount due each month in principal, interest, real estate taxes and insurance

Points - a one-time charge by the lender to increase the yield of the loan - a point is 1 percent of the amount of the mortgage

Prepays - fees collected at closing to cover escrow accounts for property taxes, insurance and perhaps private mortgage insurance

Pre-approval – the process of documenting how much money a prospective homebuyer will be eligible to borrow

Pre-qualification - before a loan is applied for determining how much money a homebuyer will be eligible to borrow

Preliminary title search – a title search conducted by a title insurance company before it commits itself to insure the rights in property ownership

Private Mortgage Insurance (PMI) - insurance required when the loan to value is greater than 80%

Purchase agreement/sale contract – a contract to sell and buy real property according to terms set forth within

Purchase and sale agreement – a written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold

Qualifying ratios - guidelines applied by lenders to determine how large a loan to grant a home buyer

R.E.S.P.A. – real estate settlement procedures act of 1974

Radon - an invisible, odorless gas found in some homes that in sufficient concentrations might cause health problems

Rate lock - a guarantee of a specified interest rate

Rate/term refinance – transaction in which the amount received from the new loan replaces the existing mortgage plus closing costs – subordinate liens should be one year old or may be considered cash out

Real estate broker – state licensed individual who, after passing an examination, is charged with the responsibility of overseeing the actions of licensed real estate associates, within his/her business, who helps clients find real estate to buy

Refinance – any mortgage transaction where there is no effective change in the title except possibly the lender

Reserve account – an amount of money set aside to pay future expenses

Revolving debt – a debt on which monthly payments are made, usually as a minimum or a percentage of the current balance

Sales contract – a contract whereby buyer and seller agree to terms of sale

Second mortgage – a mortgage, which has rights which are subordinate to the rights of the first mortgage holder

Secondary market – the investor market which provides for the purchase of mortgages from other lending institutions, enabling them to restock their money supply and loan more money (i.e. FNMA or FHLMC)

Settlement Statement - the computation of costs payable at closing (referred to as a HUD 1)

Survey - a drawing or map showing the legal boundaries of a property

Tenancy in common – ownership by two or more persons who hold undivided interest, without right of survivorship, and interests need not be equal

Title - a legal document evidencing a person's right to ownership of a property

Title Insurance - insurance to protect both the lender and homeowner against loss arising from disputes over ownership of property

Total debt ratio – housing, revolving and installment debt as a portion of total gross monthly income

Truth-In-Lending – a federal law that requires lenders to fully disclose, in writing the terms and conditions of a mortgage, including the APR and other charges

Underwriting - The process of evaluating a loan application to determine the risk involved for the lender

Verification – sworn statement before a duly qualified officer to correctness of contents of an instrument

Warranty – a clause in a deed which states that a grantor guarantees a grantee the right of quiet enjoyment and possession of the subject property, free of hindrances which may be created by other parties of interest

Zoning – the division and separation of a community into separate areas (zones) how the property in each zone may be developed and used is specified in the zoning regulations