MORTGAGE 101
Handbook

The Beginner's Guide for Everything You Need to Know About Buying & Financing Your First Home

Compass Mortgage

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Introduction

At Compass Mortgage, our goal is help you realize your dreams of homeownership and to assist you in the long-term management of your mortgage so that you can get the most out of your home. We are committed to providing you with an exceptional level of service that exceeds your expectations.

Our Mortgage 101 Handbook will help you better understand the mortgage process and can serve as a reference as we help navigate you through the home loan process.

WHO IS COMPASS?

Compass is a mortgage banker, not a mortgage broker. This subtle but important distinction gives us a greater level of control over the loan process and allows us to provide a higher level of service to our clients because we control the process from beginning to end, and we use our own funds to fund the loan.

We do underwriting in house which, in most cases, gives us the ability to approve the loans we originate. Because of this, we can quickly turn around a loan which might make the difference between getting the house you want or losing it to another buyer.

Mortgages are our only business, and our passion is to help our clients make informed decisions regarding their home financing. Our experienced staff is always here to answer questions you might have!

Dan Graham
Chairman & CEO
Compass Mortgage

WHY *Homeownership?*

Buying a home is likely the biggest financial decision you'll ever make. We know this process can be overwhelming, but it's also rewarding! Even despite the potential challenges, 85% of young people cite home-ownership as one of their main goals.

We strive to provide education and guidance every step of the way to help make things easier, and to demonstrate how homeownership can be beneficial to you.

THE FACTS ON BUYING VS. RENTING

Homebuying is **cheaper** than renting in all 100 of the United States' largest metros.

Nearly half of all renters are considered **cost-burdened**, meaning they spend more than 30 percent or more of their income on rent.

On top of tax benefits, stability in monthly payments, and equity growth, homebuying is 37.7% **cheaper than renting** nationally.

One in four homebuyers cited **high rent** as their biggest motivation to purchase a home in 2016.

GETTING *Started*

Once you've decided to become a homeowner, you want to be sure to get all your financial ducks in a row before you start the search. Meeting with a lender should be your first step! Getting a pre-approval, or even more superior, our "Get Committed" loan commitment program, will help you to know how much house you can afford, and will give you leverage in a multiple offer situation.

PRE-APPROVAL

A lender will typically suggest you begin with a pre-approval. First, you'll complete an application so they can verify your income, employment, assets, etc. They will also pull your credit report. Your loan officer will analyze this information and issue a decision on whether you're eligible for a loan. If you qualify, the lender will issue a pre-approval that states you're qualified, subject to verifying specific information such as sufficient assets, appraisal and purchase contract.

"GET COMMITTED" LOAN COMMITMENT

The Get Committed Program at Compass takes pre-approval one step further. We will ask for additional documents, including tax returns, pay stubs, and W-2's to verify the information you provide. Once verified by the underwriter, we will issue a loan commitment which provides information about the loan we have agreed to provide to you. Getting Committed means you are fully approved, subject to an appraisal, before even finding a home to purchase. This is a better-than-cash offer that is extremely helpful in a competitive housing market.

DOWN PAYMENT

Down payments are required for most all home loans, although there are some programs that can finance 100% of your home purchase or lessen the amount you need to put down upfront. Different loan programs require different down payments. For example, FHA loans require at least 3.5% contribution, and conventional loans require at least 3%. Your loan officer will work with you to find a loan program that works best with your financial situation and goals. For more information on specific loan options, see page 8.

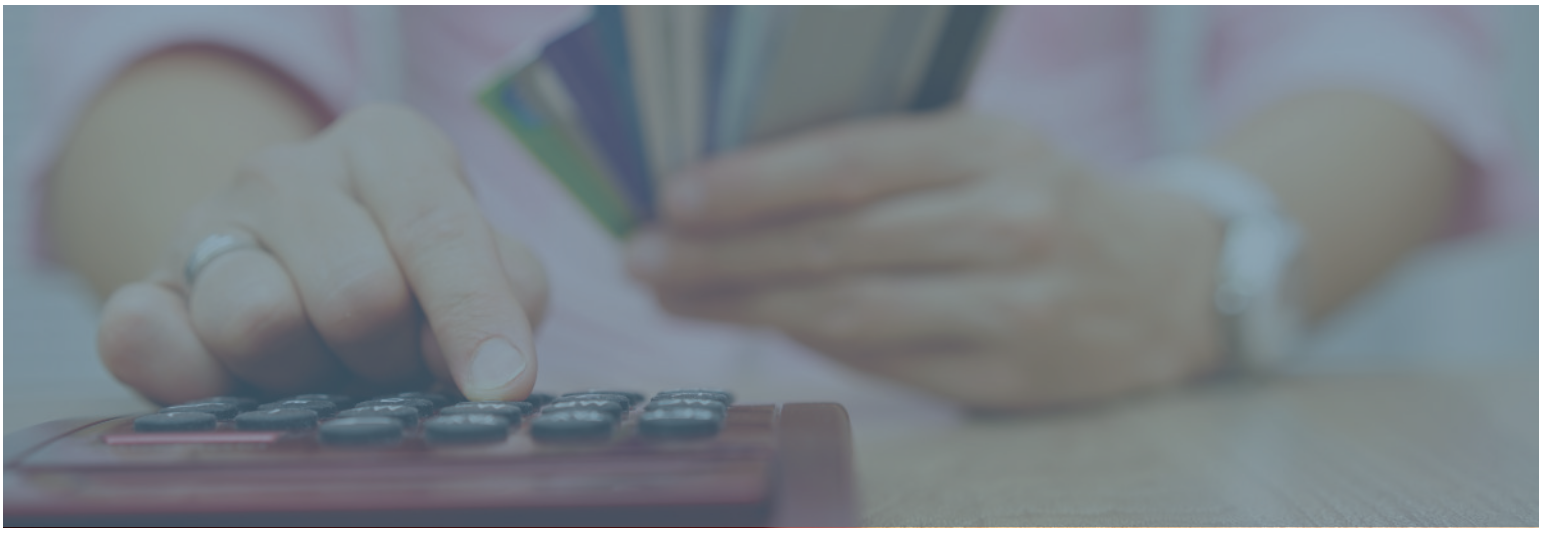
APPRAISALS

An appraisal is necessary whenever a property is sold, mortgaged, taxed, insured or developed. This process involves a professional appraiser who will offer their opinion of value on the property. The preparation of the appraisal involves research into appropriate market areas, any information available about the property in question, and the knowledge, experience and professional judgment of the appraiser.

CLOSING COSTS

When you acquire a mortgage, you will need to pay closing costs in addition to your down payment (if applicable). These are fees charged by your lender and other third parties involved in the purchase of your home. These fees are collected at the time of closing and usually include the loan origination fee, escrow deposit, appraisal fee, title insurance, attorney fees, etc.

MORTGAGE-READY *Credit*



Your credit rating is one of the most important pieces of financial information determining your eligibility for a loan. Your credit score serves as a risk assessment to lenders on how likely you are to re-pay your loan. The higher your credit score, the lower the risk of default.

Your score is calculated by a combination of score from the three national credit bureaus: (TransUnion, Experian and Equifax). Lenders will use your median score of the three, known as a FICO® score. FICO® scores range from 300 to 850. Payment history, amounts owed, length of credit history, new credit and types of credit in use all affect your score.

A minimum credit score of 620, depending on circumstances, is required of most mortgage loans by Fannie Mae, the government organization that owns 50% of home loans in America. If you fall below 620, there is still hope for future ownership through FHA/VA/USDA and other portfolio lending options. Most negative marks on your credit report will fall off after 7 years, but your score can improve significantly in the meantime by making on-time payments and keeping balances low on revolving credit.

CREDIT MISTAKES TO AVOID WHEN BUYING A HOME

- **Maxing out credit cards.** Try to keep balances below 30% of the available credit, especially during the loan process.
- **Making a late payment.** A 30-day late payment can severely drop your score. According to FICO® data, a 30-day delinquency can cause your score to drop as much as 90-110 points for a consumer with a 780 credit score who has never missed a payment before.
- **Applying for new credit** or co-signing on someone else's loan. Keep credit activity to a minimum during the buying process. Speak with your lender before making any financial decisions concerning credit accounts.
- **Closing credit accounts.** Closing a credit line will appear as though you've shortened your credit history and increased your credit utilization ratio.

WHAT GOES INTO A MORTGAGE *Payment?*

When you go through the financing process, you're likely to hear the acronym PITI or PITIA in reference to your monthly mortgage payment. This acronym stands for elements of your loan:

PRINCIPAL
The amount of money you've borrowed from your lender.

TAXES
Property taxes for your home, condominium, townhome, etc.

INTEREST
The cost of borrowing money.

INSURANCE
homeowner insurance and private mortgage insurance (if applicable)

OTHER ITEMS TO CONSIDER IN YOUR LOAN PAYMENT

- **Association Fees, aka HOA Dues** - an amount paid monthly by owners of residential property which have a homeowner's association responsible for the maintenance of designated areas within the development.
- **Private Mortgage Insurance (PMI)** - a type of mortgage insurance you might be required to pay if you have a conventional loan. Like other kinds of mortgage insurance, PMI protects the lender—not you—if you stop making payments on the loan.
- **Term** - the length of your mortgage. The shorter the loan term, usually the higher the principal payment amount.

MORTGAGE *Options*

ADJUSTABLE RATE MORTGAGE (ARM)
Adjustable Rate Mortgages have interest rates that are fixed for a specified term (3, 5, 7 or 10 years) and then adjust annually based on changes in a pre-selected index. ARM's have lower initial interest rates during the fixed initial term than fixed rate loans.

CONSTRUCTION
Funds borrowed to finance the construction of a home and typically only interest is paid during the construction period. Once the construction is over, the loan amount becomes due and the loan is refinanced into your end loan.

CONVENTIONAL
Conventional mortgages are insured by private companies, not the federal government, like VA and FHA loans. A down payment of at least three percent is required. Borrowers must make a 20 percent down payment to avoid paying private mortgage insurance. Interest rates fluctuate per borrower based on credit score.

FHA
FHA loans finance single-family purchases of new or existing homes (up to four units). It is a popular option for first-time home buyers because of the low down payment requirement of 3.5 percent, which can be a gift from a relative, non-profit organization or government agency. Because FHA loans do not require a 20 percent down payment, borrowers must pay an upfront mortgage insurance premium, which can be structured into the loan, and an annual premium that is paid monthly.

FIXED RATE MORTGAGE (FRM)
With this loan, payments and interest do not change for the term of the loan and, no matter what the term of a fixed rate mortgage, they are all fully amortizing. The 30-year fixed is the most common FRM, but many term options are available.

JUMBO (NON-CONFORMING)
A mortgage with a loan amount exceeding the conforming loan limits, and therefore, not eligible to be purchased, guaranteed or securitized by Fannie Mae or Freddie Mac. For most counties, a jumbo loan is a mortgage of more than $417,000 for a single-family home, but can go up to $625,500 in some states.

RENOVATION
A loan that allows funding for improvements to be made to a home. These loans allow buyers to roll the cost of necessary, or desired, fixes into a mortgage based on the future appraisal value of the finished product.

USDA RURAL DEVELOPMENT
The mission of the USDA Rural Development loan is to assist homebuyers achieve homeownership in eligible rural areas. An RD loan allows 100% financing to borrowers with low mortgage insurance premiums. Income limits and property eligibility apply.

VA
VA loans help service members, veterans, and eligible surviving spouses to become homeowners. The Veterans Administration provides a home loan guarantee benefit and other housing related programs to help buy, build, repair, retain or adapt a home for personal occupancy. VA home loans are provided by private lenders, such as banks and mortgage companies. VA guarantees a portion of the loan, enabling the lender to provide you with more favorable terms.

THE LOAN PROCESS *Flow* CHART

PRE-APPROVALS

Meet with a lender for pre-approval
Turn in W-2's, bank statements, etc.

Start looking for a potential home

Make and negotiate a purchase agreement

Turn in your necessary documentation to your lender
Tax returns, photocopy of ID, etc.

Loan application is completed and turned in

Appraisal is ordered

Receive clear-to-close loan approval

Closing!

GET COMMITTED

Meet with a lender

Provide supporting documents

Loan application is completed and turned in

Get Committed is granted
Pending home purchase

Start looking for a potential home

Appraisal is ordered

Receive clear-to-close loan approval
After underwriter approves appraisal

Closing!

MORTGAGE *Glossary*

AMORTIZATION | The paying off of debt, or the deduction of capital expenses, in regular installments over a period of time.

APPRAISAL | A written estimate of a property's market value completed by a licensed, independent, appraiser.

CERTIFICATE OF TITLE | A legal document proving a person's right to or ownership of a property.

DEBT-TO-INCOME RATIO (DTI) | The relationship between an individual's housing and debt payments as a percentage compared to the income he or she earns.

EQUITY | The difference between a home's fair market value and the outstanding indebtedness (balance of all liens) the borrower has on the property.

ESCROW | A financial instrument created to store money collected by a lender to pay for property taxes and hazard insurance when they become due by a thirty party.

HAZARD INSURANCE (HOMEOWNER'S INSURANCE) | This insurance should be equal to at least the replacement cost of the property you are purchasing. Replacement cost coverage ensures that your home will be fully rebuilt in case of a total loss. Many homebuyers purchase a homeowner's insurance policy that includes personal liability and personal property coverage. If the home you are purchasing is near water or in a flood zone, you may need flood insurance as part of your homeowner's protection. Lenders generally require the first year's premium to be paid prior to closing, as well as escrowing the monthly breakdown to pay the premium in full when due annually.

INTEREST RATE LOCK | A written agreement in which the lender guarantees a specified interest rate if a mortgage goes to closing within a set time period.

LIEN | A legal claim against a property that must be paid off when the property is sold.

LOAN ESTIMATE (LE) | This 3 page from provides you with important information, including the estimated interest rate, monthly payment, and total closing costs for the loan. The Loan Estimate also gives you information about the estimated costs of taxes and insurance, and how the interest rate and payments may change in the future.

LOAN-TO-VALUE RATIO (LTV) | The relationship between the principal balance of the mortgage and the appraised value (or sales price, if lower) of the property.

MORTGAGE INSURANCE | Also called PMI, is a type of mortgage insurance you might be required to pay for it you have a conventional loan. Like other kinds of mortgage insurance, PMI protects the lender - not you - if you stop making payments on your loan.

TERM | Period over which a loan agreement is forcible to be collected. The loan term is used to determine the payment amount, repayment schedule and total interest paid over the life of the loan.

TITLE INSURANCE | Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property. Your lender will require that you purchase a lender's policy. The seller typically purchases an owner's policy for the buyer.

Home TO A BETTER MORTGAGE EXPERIENCE

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