

KNOW THE TALK BEFORE YOU SHOP

Lending Vocabulary

Amortizing Loan - a loan where the principal of the loan is paid down over the life of the loan (that is, amortized) according to an amortization schedule, typically through equal payments.

APR – Annual Percentage Rate. This includes any fees or additional costs associated with the transaction.

Balloon Payment - An oversized payment due at the end of a mortgage.

Debt-to-Income Ratio – the ratio of monthly liabilities and housing expenses divided by the monthly gross income of the borrower.

Conventional Loan - A mortgage loan not insured by any government program, conventional loans are the most common type of mortgage.

First-Time Homebuyer – typically defined as someone who has not owned another property at any time during the three years prior to the date of the purchase.

FHA Loan - A mortgage issued by federally qualified lenders and insured by the Federal Housing Administration (FHA). FHA loans are designed for low to moderate income borrowers who are unable to make a large down payment.

4 Cs of Credit - This method of evaluating a borrower incorporates both qualitative and quantitative measures. Capacity measures a borrower's ability to repay a loan by comparing income against recurring debts. The lender will consider any capital the borrower puts toward a potential investment, because a large contribution by the borrower will lessen the chance of default. Collateral, such as property or large assets, helps to secure the loan. Credit refers to the borrowers credit report and credit score.

Home Equity – the value of a property less any and all existing liens. If a borrower owns a property worth \$100,000 and has liens of \$30,000, equity is \$70,000.

Lender Overlay – a guideline (or set of guidelines) in addition to those required by Fannie Mae, Freddie Mac, or the FHA/VA.

Loan Estimate - A three-page form that you receive after applying for a mortgage. The Loan Estimate tells you important details about the loan you have requested. The lender must provide you a Loan Estimate within three business days of receiving your application.

Loan Processing - Entire sequence of steps, from the time a loan application is received (or a loan offer is accepted) to the time loan is closed. Processor receives and reviews documents Appraisal, title, insurance, tax certificates, and verifications are ordered.

Loan Origination – the initiation of the home loan process whereby a borrower submits their information to a bank or lender in order to obtain mortgage financing.

Adapted from the CFPB, Investopedia and TheTruthAboutMortgages.com

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Loan-to-Value (LTV) – the percentage of the appraised property value that is borrowed from a bank or lender. A down payment of 20% would create a loan-to-value of 80%.

PITI - Stands for **principal, interest, taxes and insurance**. **PITIMI** stands for **principal, interest, taxes, insurance, and mortgage insurance**

Private Investor - A company or individual that takes their own money and uses it to help borrower is known as a private investor.

Private Mortgage Insurance (PMI) - A risk-management product that protects lenders against loss if a borrower defaults. Most lenders require private mortgage insurance (PMI) for loans with loan-to-value (LTV) percentages in excess of 80% (the buyer put down less than 20% of the home's value upon purchase).

Points or Discount Points – a form of prepaid interest whereby the borrower lowers the interest rate of the mortgage at closing.

Portfolio Lender - A company that not only originates mortgage loans, but also holds a portfolio of their loans instead of selling them off in the secondary market.

Refinance – the act of replacing your existing loan(s) with a new loan on the same property. There are two main types of refinancing, including a rate and term refinance and cash-out refinance.

Second Mortgage – a mortgage taken out behind a first mortgage, either concurrently or after the fact.

Secondary Market - A *secondary mortgage market* is the market where mortgage loans and servicing rights are bought and sold between mortgage originators, mortgage aggregators (securitizers) and investors. The secondary mortgage market is extremely large and liquid.

Servicer - a company (mortgage bank, servicing firm, etc.) collects interest, principal and escrow payments from a borrower.

TIP – Total Interest Percentage. The total amount of interest you will pay over the loan term as a percent of your loan amount.

Underwriting - Mortgage underwriting is the process a lender uses to determine if the risk (especially the risk that the borrower will default) of offering a mortgage loan to a particular borrower is acceptable.

USDA Loan - USDA Rural Development Guaranteed Housing Loan Program, is a mortgage loan offered to rural property owners by the United States Department of Agriculture.

VA Loan - A VA loan is a mortgage loan in the United States guaranteed by the U.S. Department of Veterans Affairs (VA). The loan may be issued by qualified lenders

Adapted from the CFPB, Investopedia and TheTruthAboutMortgages.com

WHAT OPTIONS YOUR LENDER MAY PRESENT TO YOU

Loan Products Comparisons

	Conventional	FHA	ODVA/VA	USDA	Other Products
Description & Qualification	Most common 30 year fixed loan. May have better rates, but may need to meet stricter credit and DTI thresholds. 620 min FICO.	A mortgage loan insured by the federal government (FHA) may have looser credit and DTI requirement. 580 min FICO.	Most lenient requirements. Qualifying veterans. Most lenders have min FICO.	Must be in rural areas. Income caps listed on usda.gov. DTI caps 29/41. Non-traditional credit allowed. 620 min FICO.	Private money; portfolio loans; jumbo products
Down Payment Requirement	3% at minimum, some restrictions apply. 5% owner occupied second home. 10% for investment property.	3.5% at minimum	VA – 0% ODVA – 3-5% with some restrictions.	0%	Usually requires more down.
Mortgage Insurance?	Yes, if you are down payment is less than 20%. Mortgage insurance falls off once you reach an LTV of 78%. Rates based on FICO and LTV.	Yes; here are 1.75% upfront and .85% annual mortgage insurance premiums, if less than 10% down. 11 years if LTV if 10% or more	VA – no monthly; does have fund fees based on how you served and previous use. ODVA – yes, similar to conventional.	Upfront guarantee fee is 1%. Annual guarantee fee is .35%.	N/A
Student Loans	See “Student Loan Payment Calculation” handout.	See “Student Loan Payment Calculation” handout.	See “Student Loan Payment Calculation” handout.	See “Student Loan Payment Calculation” handout.	See “Student Loan Payment Calculation” handout.
Other Notes:	Owner occupied, 2 nd home, investment property—loan amount caps at \$424,000.	Owner occupied only. Max loan amount for Oregon is \$275,665. More inspection restrictions. No second home.	Must be owner-occupied. No second homes.	Must be owner occupied.	Not subject to fit government guidelines

OBTAINING A MORTGAGE

Student Loans & Mortgage Qualification

Different underwriting guidelines affect how your student loans affect your ability to obtain a mortgage. Guidelines may change, contact your lender for the most updated calculations.

Loan Type	How much Student Loan Debt is calculated to your Debt-to-Income ratio (DTI)
Fannie Mae	Use the lowest of the following to determine how much is counted towards your DTI: <ul style="list-style-type: none"> - 1% of the outstanding balance or - Your monthly payment reported on the credit report - Your actual documented payment, including Income Drive Repayment (IDR) payments - A calculated payment that will fully amortize the loan based on the current prevailing student loan interest rate and the allowable repayment period
Freddie Mac	Use the greater of the following to determine how much is counted towards your DTI: <ul style="list-style-type: none"> - 0.5% of the outstanding balance or - Your reported payment on the credit report <p>If your payment is deferred/forbearance, use the greater of 1% of the balance or the reported payment</p>
FHA	Use the greater of following to determine how much is counted towards your DTI: <ul style="list-style-type: none"> - 1% of the outstanding balance - Your monthly payment reported on the credit report - the actual documented payment, provided the payment will fully amortize the loan over its term. <p>If the payment used for the monthly obligation is</p> <ul style="list-style-type: none"> - less than 1 percent of the outstanding balance reported on the Borrower's credit report, and - less than the monthly payment reported on the Borrower's credit report; <p>the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.</p>
VA	Use the greater of the following to determine how much is counted towards your Debt-to-Income: <ul style="list-style-type: none"> - 1/12 of 5% of the outstanding balance or monthly payment reported on the credit report <p>Student loans beginning within 12 months of Loan Closing are required to be included in the monthly debt obligation.</p>
USDA	Use the greater of the following to determine how much is counted towards your Debt-to-Income: <ul style="list-style-type: none"> - 1% of the outstanding balance or monthly payment reported on the credit report - <p>Exception: monthly payment on credit report less than 1% may be used with evidence loan is on fixed payment and not subject to change. NOTE: IBR payments ARE NOT acceptable</p>

Subject to Change. Contact your Lender for most up-to-date guidelines.

FICUS BANK

4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone
 123 Anywhere Street
 Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
 Anytown, ST 12345
SALE PRICE \$180,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____
LOAN ID # 123456789
RATE LOCK NO YES, until 4/16/2013 at 5:00 p.m. EDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
Prepayment Penalty	Does the loan have these features?	
	YES • As high as \$3,240 if you pay off the loan during the first 2 years	
Balloon Payment	NO	

Projected Payments	Years 1-7		Years 8-30	
Payment Calculation				
Principal & Interest	\$761.78		\$761.78	
Mortgage Insurance	+	82	+	—
Estimated Escrow <i>Amount can increase over time</i>	+	206	+	206
Estimated Total Monthly Payment	\$1,050		\$968	
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$206 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>		In escrow? YES YES

Costs at Closing		
Estimated Closing Costs	\$8,054	Includes \$5,672 in Loan Costs + \$2,382 in Other Costs – \$0 in Lender Credits. <i>See page 2 for details.</i>
Estimated Cash to Close	\$16,054	Includes Closing Costs. <i>See Calculating Cash to Close on page 2 for details.</i>

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

Additional Information About This Loan

LENDER Ficus Bank
NMLS/___ LICENSE ID
LOAN OFFICER Joe Smith
NMLS/___ LICENSE ID 12345
EMAIL joesmith@ficusbank.com
PHONE 123-456-7890

MORTGAGE BROKER
NMLS/___ LICENSE ID
LOAN OFFICER
NMLS/___ LICENSE ID
EMAIL
PHONE

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$56,582	Total you will have paid in principal, interest, mortgage insurance, and loan costs.
	\$15,773	Principal you will have paid off.
Annual Percentage Rate (APR)	4.274%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	69.45%	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisal	We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.
Assumption	If you sell or transfer this property to another person, we <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input checked="" type="checkbox"/> will not allow assumption of this loan on the original terms.
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Refinance	Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.
Servicing	We intend <input type="checkbox"/> to service your loan. If so, you will make your payments to us. <input checked="" type="checkbox"/> to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature

Date

Co-Applicant Signature

Date

GATHER YOUR PAPERWORK FOR PRE-APPROVAL

Loan Documentation Checklist

General Document

- Social Security card and drivers' licenses or passport

Documents to Support Income

- The name, address, phone number of every employer you have worked for in the last two years
- Most recent two months' pay stub
- W2's and complete Federal Income tax returns for the last two years

Evidence of All Other Income, Including:

- Child support payments
- Pension payments
- Seasonal employment income
- Government assistance
- Social Security benefits

Documents to Support History of Consistently Paying Housing Expenses

- Provide the name and phone numbers of your landlords over the past 24 months

Documents to Support Savings and Recent Bank Activity

- Savings account statement (most recent 60-90 days)
- Check account statement (most recent 60-90 days)
- Brokerage statements (Stocks, 401k, IRAs, etc.), (most recent 60-90 days)

Documents to Support Current Debts

- After reviewing your credit report, if not all of your debts are shown, for each missing creditor with whom you have an outstanding debt list each debt's name, address, account number, balance and monthly payment

Documents to Explain Irregularities

- Letter of explanation for any derogatory credit item
- Letter of explanation for any gaps in employment within the past two years
- Chapter 7 or Chapter 13 bankruptcy complete filing package including discharge papers and list of creditors (Schedule F)

Other

- Veteran's DD-214 and certificate of eligibility
- Copies of divorce decree and marital settlement agreement

Source: "Realizing the American Dream" NeighborWorks America