

Home Starts Here.

First-time Homebuyer's Guide



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Homeownership Benefits



Buying a home is one of the largest financial investments you can make. That's why it's important to do your homework and be prepared. And that's where we come in...as one of the oldest community banks in Texas, we're ready to lend a hand when you're ready to buy your first home.

From guiding you through the process to reviewing loan options to crunching the numbers, ANBTX Mortgage is here to help you move closer to being a homeowner.

Benefits of Buying & Owning

To get started, let's talk about some of the benefits of homeownership. While renting is more flexible, buying a home has both short- and long-term payoffs and can provide a sense of stability and security. When you factor in the possibility that real estate values may go up over the years, homeownership looks even better. Here are a few of the benefits...

✓ Build Equity & Personal Wealth

When you buy a home, you're building wealth with every payment. Month by month, you pay down the mortgage and increase your equity (i.e., the amount of money you can sell the house for minus what you still owe). In a booming market, you may be able to establish equity very quickly—you can also use your home's equity if you need additional financing later. Over a lifetime, homeownership helps you build wealth and is an asset to leave future generations.

✓ Earn Tax Advantages

You can usually count on significant tax benefits when you buy a home. Homeowners can deduct mortgage interest on their federal income taxes, which can be a hefty deduction because interest payments are often the largest part of your mortgage payment in the early years of owning a home. You may also be able to deduct a portion of your closing fees and your property taxes. Consult your tax advisor for the specific deductions and benefits.

✓ Make it Your Home

Although it's typically better to rent if you won't be staying long or if your plans are uncertain, that kind of flexibility comes with a price—and in some markets, it may be as expensive (or more) to rent without any of the benefits of owning. When people buy a house, they settle in and create a community. And you have the added perk of making the house your own without asking permission...you can get a pet with no deposit, paint the bedroom, add or expand the floorplan, etc.

Up next

So now that we know the benefits, let's talk about some mortgage basics to help you understand and navigate the process as you move forward.





What Is a Mortgage?

A mortgage is simply a loan, secured by a property, that finances the purchase of a home. And for the home buyer, there are multiple options available. The key is finding the one that's right for you and your new place, which is just what our team of experienced lenders is here to help you do.

Let's Talk About Loans...

Each type of mortgage loan has unique features and benefits as well as terms and conditions for repayment (interest rate, terms, etc.) But to start, you can group them into two main types—fixed or adjustable.

- A **fixed-rate mortgage** offers a consistent interest rate, which means that your total monthly payment of principal and interest remains the same for the life of the loan.

If interest rates are currently low, if you plan to stay in the home for a long time, or if you want a predictable payment amount, a fixed-rate mortgage is usually the best option. The 30-year fixed rate mortgage remains the most common mortgage loan for buyers. Just note that other terms also exist (15-, 20-, 40-year, etc.)

- An **adjustable-rate mortgage**, usually referred to as an ARM, has an interest rate that is initially fixed for a specific amount of time before moving to a variable rate that "adjusts" based on market conditions.

While an ARM may start off with a lower interest rate, it could increase, which can increase your payments. Borrowers may choose to go with an ARM when they don't plan on staying in a home long term, interest rates are high when they buy, or if they expect their incomes to increase in the next few years.

The most common ARM terms are 3-1, 5-1, 7-1, 10-1, where the loan interest rate is fixed for the initial set term (e.g., 3, 5, 7, or 10 years) and then adjusts annually after the initial set term.

Conventional vs. Government-Backed Loans

Another term you'll hear—which is more of a general classification or grouping of loans—simply refers to who is backing (or insuring) the loan. Each of these loan types include fixed or ARM options.

- A **conventional loan** means it's not insured or guaranteed by a government agency and the underwriting guidelines are set by your lender.
- Conversely, a **government-backed loan** is guaranteed by the agency financing the loan, such as the Federal Housing Administration (FHA) or U.S. Department of Veteran's Affairs (VA). Government-backed loans typically have lower down payment requirements than conventional loans but may have added guidelines for the borrower, such as limits on income or who's eligible (e.g., VA loans are designed to help eligible veterans, active-duty service members, and their spouses).

Mortgage Speak

We know there are lot of new terms and acronyms that you might not be familiar with. Refer to our glossary of terms (pages 24-26) and use it as a reference guide along the way.

What About the Mortgage Payment?

Like any loan, there will be specific terms for repayment consisting of the **principal** (the amount you financed) and the **interest** (the cost to borrow the money). Both are "amortized" over the length of the loan term, meaning each month a portion of your payment is applied to principal and a portion is applied to interest.

In addition, a mortgage payment may include additional costs some buyers don't realize, such as:

- **Homeowners Insurance**, which protects you (the homeowner) and the lender against financial loss resulting from wind, fire, natural disasters, or other hazards. (You may also be required to obtain specialized provisions or policies, such as separate flood insurance, depending on the location of your property.) Your insurance is usually paid out of an escrow account (see next page).
- **Property Taxes**, which are assessed by the county the home is located in to fund schools and other public services in the community. Taxes vary by location, so ask your real estate agent about the specifics for your area. But as noted earlier, there are tax benefits when buying—a portion, if not all, of your property taxes may be tax-deductible. Always **consult your tax advisor** for details on this important tax benefit. Your taxes are usually paid out of an escrow account (see next page).



- **Private Mortgage Insurance (PMI)**, which protects your mortgage lender from financial loss if you can't repay your loan. This is almost always required when you put less than 20% down but will be removed once you attain 20% equity in the property.

What Is an Escrow Account?

Most borrowers will also have an **escrow account** included with their mortgage payment that collects a monthly amount for their homeowners insurance, property taxes, and other property associated costs. These costs are paid directly by the mortgage company on an annual basis from the funds in the escrow account.

Because taxes can go up (or down) each year based on your home's appraised value, your escrow account may increase or decrease annually resulting in a shortage or surplus—either of which may lead to a higher or lower payment. Your lender will analyze your escrow account annually to make sure they're not collecting too much or too little.

If their analysis of your escrow account determines that they've collected too much money for taxes and insurance, they'll provide an escrow refund. If their analysis shows they've collected too little, you'll need to cover the difference. You may be given options to make a one-time payment or increase the amount of your monthly mortgage payment to make up for a shortage in your escrow account.

Don't Forget Other Home-Related Expenses

Homeownership comes with additional costs that aren't part of your mortgage payment but need to be factored into your budget. Many people may be able to comfortably afford the monthly expense of the mortgage, but they aren't prepared for the extra costs—or increases of some bills—that often come with a home of their own, such as:

- Utilities (i.e., these may have been included in the rent payment)
- Maintenance and upkeep of the home and systems (HVAC, plumbing, electrical, painting, etc.)
- Expenses to move and furnish a new home (e.g., new appliances, more furniture, etc.)
- HOA fees (if applicable)
- Transportation costs (e.g., longer drive to work)

Up next

We'll dive deeper into the financial planning and preparedness as well as some fundamentals to help you determine if you're financially ready to take this next step.





Before you can determine if you're ready to buy a home, you need to make sure you can afford the short- and long-term costs. Other important factors include your down payment and credit score, both of which can affect your interest rate and payment.

Down Payments That Don't Break the Bank

Let's start with one of the biggest financial barriers to buying a home—the down payment. Many potential buyers don't realize that you can put down less than the standard 20%. Today there are many mortgage products—especially those for first time buyers—that have low- or no-down payment options, ranging from 3 1/2% or less.

Talk to your ANBTX lender to learn what options may be available to you.



Factor in Other Expenses, Too

Besides saving for a down payment, you'll also want to plan for other costs associated with buying a home.

- **Closing Costs.** This includes various fees involved when securing a mortgage. Typically, these include, but are not limited to, fees for a loan application/origination, a title search, title insurance, and lender costs. It also involves upfront expenses which include, but are not limited to, mortgage insurance, homeowners insurance, property taxes and an initial escrow account for future insurance and tax payments. A general rule is that these expenses are typically between two and five percent of the home purchase price. In some instances, the seller may pay for these costs, so ask your real estate agent whether to request this in the offer.
- **Moving-Related Costs.** Once you're ready to move into your new home, you may need to hire people to move your furniture, appliances, and other items. Even if you have friends or family to help, you may still need to account for the cost of a moving truck, as well as boxes and bubble wrap for packing.
- **Utility Hookups.** Setting up your new household requires getting connected to a lot of services. Be prepared for initial setup costs for gas, electric, internet, cable TV, and public utilities. Sometimes, you may need to pay installation fees and many may require initial deposits.
- **Furniture & Appliances.** In most cases, buying a home means you'll have more space to fill, so it's good to put aside some money for home furnishings. You may also need—depending upon the sales contract—to purchase or bring appliances that don't transfer with the purchase of the house. This can include the refrigerator, washer and dryer, microwave, etc. Always check with your real estate agent on what's included and what you'll need to buy.
- **Home Improvements.** One of the best things about owning your home is that you can make it your own. You may be able to negotiate that the seller addresses certain repairs and upgrades so you're not responsible for them. But if you think you may want to paint, update carpeting, change out light fixtures, or make larger improvements when you first move in, consider planning for these costs ahead of time.
- **Home Maintenance/Upkeep.** In addition to the costs that come with moving in, you'll have additional expenses once you move in.





Finances That Do (or Don't) Add Up

Buying and owning a home is a major financial commitment. And it can be hard to know whether you're ready to take that step forward. That's why it's important to review your current financial situation and the future impact a home may have. To see if your finances are ready, here's a three-step process to help you get started.

Step 1: Take a Look at Your Financial Picture (Current & Future)

The best way to understand your total income and expenses—and determine what's affordable—is to look at and document your current financial situation. Chart what money is coming in each month and what money is going out each month. It's the best way to get a clear picture of how much you earn, spend, and save, and there are many free financial tools available to help you do this.

Don't forget about other important goals you might have for your financial future, such as saving for education expenses or retirement, opening your own business, or simply managing other financial or familial responsibilities. You may realize there are other dreams (or needs) that you place ahead of buying a home, at least for now.

Step 2: Estimate What You Can Afford

Once you know what your finances look like, you can more accurately determine what you can afford to spend on a home. Keep in mind, you may be approved for an amount that's more than you want to spend or that doesn't allow you to save for your other financial goals. To get an estimate, there are mortgage calculators available, including on our website.

Step 3: Create a Budget & Plan for Buying

Now that you understand your finances and have an estimate of what you can afford, you'll want to make a detailed budget and plan based on these numbers. Maybe you're ready to buy or maybe you need to save a little (or a lot) before you buy. Either way, a budget will help you plan for buying and owning a home.

Important

Many buyers may stretch their budget so far until there's little room left for any extras, which is hard to sustain over the long term. Only finance what you feel comfortable spending on your home and be careful not to upsize your budget.



Credit Always Counts

Your credit is reviewed and evaluated by lenders, which allows them to examine your financial past and present. Specifically, borrowers have a numerical score ranging between 300 and 850. The lower the credit score, the riskier a loan might be, and to mitigate this risk, lenders may charge a higher interest rate. However, there are loan options for those with less-than-perfect credit, and many lending programs accept a range of credit scores.

While many factors go into determining your credit score, the number can be a good snapshot of your financial health and history. Like your finances, you'll want to be proactive and review your credit score—and potentially work to improve—before moving forward. To get started...

Obtain Your Credit Score

There are a few different credit reporting agencies and it's important to look at each one (they may vary slightly among them). By federal law, you get three free credit reports a year—one from each credit reporting agency (Experian, Equifax, and TransUnion). Go to annualcreditreport.com or call toll free 877.322.8228 to get your free report from all three or, at any time, you can pay to get a copy of your score.



Improve Your Credit Score, if Needed

If you're thinking of buying a home and are concerned that your credit score is too low, you can take steps to improve it.

- **Fix Reporting Errors:** Before you get into improving your credit score, it's important to make sure there are no errors on your credit report. If you do find errors, contact each agency separately and let them know in writing that the information is inaccurate, along with proof of why it's inaccurate. Then, reach out to the company that misreported the information.
- **Pay Bills on Time:** One of the biggest contributors to your credit score is on-time payments. If you've made late payments or missed payments in the past, these are hard to fix. The best thing you can do going forward is to get payments in on time and know that past credit problems may become less of a problem as time moves on.
- **Pay Down Debt:** Paying off debt, especially credit card debt, can make a big difference in your credit score. It'll increase your available credit and help lower your debt-to-income ratio.

Avoid Making Changes to Your Accounts

If you're planning to purchase a home—regardless of your score—then there's one important thing you must do: **avoid any financing or credit changes.** This includes opening new or closing old accounts, as well as making changes, such as asking for an increase on your credit card or applying for a store card to get a promotional rate.

This can negatively impact your score for many reasons, including the risk of taking on more debt and lowering your average account age. It also increases the number of inquiries to your credit report, which can affect your score.

Up next

After you've crunched the numbers, it's time to talk about the process to buy a home.

Mortgage Process



We've streamlined the process for our borrowers, and we'll help do all the heavy lifting when it comes to your loan. To help you prepare, we've outlined the process. Keep in mind, every loan and every homebuyer is unique, so think of these steps as a guideline.



Step 1: Pre-qualify

Before you even start shopping for a new home, it's a smart move to get pre-qualified. This not only gives you an estimate of how much you can spend, but it shows you are a serious buyer, and it can be a competitive advantage when presenting an offer to a seller.

Who's Involved?

During this time, you'll work with your ANBTX Mortgage Lender.

How Long Does This Step Take?

This can be done very quickly, usually in just a couple days if not sooner.

What Happens?

You'll provide some initial information to the lender to receive an estimate of what you can afford. Keep in mind that a pre-qualification is an estimate. Once you find your home, you'll complete the loan application, including detailing your income and assets as well as submitting your documentation to be verified.

Step 2: Start Shopping

Once you've been pre-qualified and have an idea of how much you can spend, you are ready to start actively shopping. It's usually recommended that buyers work with an experienced real estate agent. Not only will they assist you in your home search—they're knowledgeable about particular communities and market prices—but they'll provide advice and support throughout the process, including contract negotiations, financing, home inspections, closing, etc.

Who's Involved?

During this time, you'll work with a licensed real estate agent.

Step 2: Start Shopping (Continued)

How Long Does This Step Take?

This is all dependent upon finding the right house at the right time. In competitive real estate markets, it may take longer due to reduced inventory and increased demand. Be sure to work closely with your real estate agent so they can search for the homes that fit your budget and checklist.

What Happens?

Once you've found the right home, you'll work with your agent to determine the best price for the home and to submit an offer. Your agent will also look at the properties in the neighborhood—they'll pull "comps" or "comparables" of recently sold homes—to get a feel for the fair market value of the home as well as the market conditions that could influence the price.

During this time, you'll also discuss the terms of the sale, such as when you'd like to move in, how much time you have to do certain tasks (inspection), etc. After you're comfortable with the terms, your agent will: prepare the contract, present it to the selling agent, and work to negotiate the offer (if needed).

Step 3: Finalizing Your Application & Home Loan

Once your offer is accepted and you have a signed agreement in hand, it's time to go back to your lender to finalize your mortgage details so you can close the deal.

Who's Involved?

During this time, you'll work with your ANBTX Mortgage Lender and your real estate agent.

How Long Does This Step Take?

You'll want to complete your application and submit your documentation as soon as your offer is accepted.



Step 3: Finalizing Your Application & Home Loan (Continued)

What Happens?

When you apply (vs. just pre-qualifying) for a mortgage, you're giving the lender permission to pull your credit, look over your financial information, order an appraisal on the home, and start a title search. Specifically, you'll need to:

- **Complete Your Application.** You'll work with your ANBTX Mortgage Lender to fill out your application, either online or in person.
- **Provide Documentation.** You'll need to provide your income, assets, and debts. Most lenders will require documents to verify this information such as W-2s, paystubs, and bank and investment statements. Generally, your lender will ask for these documents when you submit your application. However, in most cases, additional information will be needed. Your ANBTX lender will contact you to request any added paperwork needed during the underwriting process.
- **Review the Loan Estimate.** A Loan Estimate (LE) is a standard document you'll receive when you apply for a mortgage. Your lender is required to send to you a Loan Estimate within three days of applying for a mortgage. Previously known as a "Good Faith Estimate," the LE is a useful tool for loan shopping. Loan Estimates always follow the same format—three pages long, split into sections which outline the terms, closing costs, and fees associated with your loan—making it simple to compare loan offers side-by-side.

These terms on a LE are **valid and binding for a period of 10 days from issuance**. That means a lender must follow through with the rate and terms offered on your LE if you move forward with the loan within 10 days—provided there are no major changes to the loan or application.

Important—Maintain Your Debt and Credit Score!

From this point forward, it is important to avoid taking on new debt or making other financial changes, like closing credit cards or other accounts. Anything that affects your debt-to-income ratio or changes your credit score may impact your mortgage approval. Once your mortgage closes, you're clear to open or close credit accounts, but it's always important to borrow responsibly and stay within your budget.

Mortgage Process Continued...



- **Look at your debt-to-income ratio (DTI)** examining your debts and comparing them to your income to ensure you have enough cash flow to cover your monthly mortgage payments, taxes, and insurance.
- **Verify your down payment and savings** looking at your accounts to make sure you have enough savings to supplement your income or to use as a down payment at closing.
- **Order an appraisal** confirming that the amount of the loan does not exceed the home's value.

As a buyer, you'll need to:

- **Provide documents as requested by the underwriter.** Your ANBTX Mortgage Team will communicate with you during this time to ensure your loan stays on track.
- **Lock in your interest rate.** Interest rates, including those offered on the mortgage, can be volatile and subject to change. If possible, it is advisable to lock in the interest rate in advance for the loan to prevent any increases due to market fluctuations, which could cause rates to rise before you finalize your property purchase. Even a 0.25% rate hike can significantly increase your monthly payments.
- **Review the Closing Disclosure provided by your lender.** Federal law requires that lenders provide a Closing Disclosure (CD) at least three business days before your closing date. When you get your CD form, you need to compare it against the Loan Estimate you received when you made your mortgage application. Some charges on your Loan Estimate, such as the loan origination fee and appraisal fee, should never change on your Closing Disclosure. If these fees have changed, contact your lender and ask for a cost correction.

Mortgage Process Continued...



Step 4: Off to Underwriting

Once you've submitted your complete application, your loan is off to underwriting, which is where your lender verifies your income, assets, debt, and property details to issue final approval.

Underwriting happens behind the scenes, but that doesn't mean you won't be involved. Your lender might ask for additional documents or need you to clarify certain transactions, such as verifying extra income or deposits or providing proof of additional assets or investments.

Who's Involved?

During this time, you'll work with a loan processor and underwriter from the ANBTX mortgage team. The processor is responsible for gathering and organizing the necessary documents for the underwriter, who reviews your documentation to determine whether to approve or deny the loan application based on the specific underwriting criteria and guidelines. You'll also work with your agent and outside vendors to complete certain activities (inspection, insurance, etc.)

How Long Does This Step Take?

Each situation is different, but underwriting can take anywhere from a few days to several weeks. Missing signatures or documents, and issues with the appraisal or title insurance are some of the things that can hold up the process. Be very responsive to requests for information, and if you need more time to gather requested documents, continue to communicate with your lender.

What Happens?

Ultimately, you can think about this part of the process in terms of finalizing your loan and finalizing the home contract.

Finalizing Your Loan

Your underwriter will ensure that you meet the qualifications and requirements outlined by the lender. Specifically, they will:

- **Investigate your credit history** looking at your overall credit score and searching for things like late payments, bankruptcies, overuse of credit, etc.
- **Verify your income and employment** asking you to prove your income and employment.

Finalizing Your Home Purchase

You and your real estate agent will also be busy with some to-dos for your new home. Here's an overview of what you can expect...as a buyer, you will:

- **Conduct a home inspection.** Contact a licensed home inspector to complete a physical home inspection. An inspection is necessary to identify any potential problems with the property. If the inspector identifies a serious problem with the home during the inspection, you will have an opportunity to back out of the deal or ask the seller to complete repairs. You can also request that the seller pay you to complete the repairs (if your purchase offer includes a home-inspection contingency).
- **Arrange for homeowners insurance.** Most lenders require buyers to get a homeowners insurance plan for the new home and show proof of this insurance just before or during closing. The cost of your insurance plan will depend, in part, on the features and condition of your home, what you choose to have covered, and how much you're willing to pay for a homeowners insurance deductible.
- **Final walk-through.** One of the last steps before you sign your closing papers should be to look over the property one last time. You want to make sure that no damage has occurred since the last home inspection. You should also verify that the seller has completed the required fixes and no new problems came up. Finally, check to see that everything agreed upon and included in the purchase agreement remains.

Important— Stay in Touch with Your Lender!

During the underwriting process, there may be ongoing questions or the need for more information. Responding promptly to these requests will keep your application moving forward.

Step 5: Closing Time

This is it—it's time to close on your home and get the keys! During this step, the home legally transfers ownership from the seller to you, the buyer.

Who's Involved?

You'll work with your real estate agent (the seller is represented by their agent as well) and your ANBTX lender. You'll also work with a title company and closing agent, who coordinates the various activities and manages the closing (usually at their office).

Mortgage Process Continued...



How Long Does Closing Take?

Usually, you'll need to set aside at least 2-3 hours to review and sign all the paperwork and finalize the transaction, but this may take more time as each transaction is unique.

What Happens During Closing?

Get ready to sign a lot of documents and to bring along a cashier's check for the down payment and any out-of-pocket costs the loan doesn't cover. Your lender will wire the funds financed for the loan to the closing agent to disperse to the seller. (Your lender and closing agent will explain where all the money goes, so don't be afraid to ask.) Before you arrive, make sure you bring items that are necessary for the closing, such as your photo ID, a cashier's check, and whatever else your lender or closing agent suggests. Here's a detailed look at what happens...

- **Sign and Notarize Paperwork.** Expect a considerable number of documents to sign during closing. While you may be tempted to sign them without reading them thoroughly, it's extremely important to understand what the documents mean and to know that each is legally binding. It's also imperative to check for accuracy. For example, look closely at the spelling of your name and confirm the accuracy of the loan terms and closing costs.
- **Set Up the Escrow Account for Taxes and Insurance.** Your escrow account will be set up during this time. As noted prior, the lender will use the money in this account to pay—on your behalf—costs like property taxes, homeowner's insurance, flood insurance, and more.
- **Fund the Loan.** Once the closing documents have been signed by all parties, the title company sends the necessary documents to the lender's closer for funding authorization. Funding typically occurs within one to two hours after the signing of documents.

Once funding is confirmed, keys will be released, and you may take possession of your new home.

Congrats, you've bought your first home and are now a homeowner!





Serving Communities Since 1875

From a small local bank that opened its doors in 1875 to now, our focus on community banking remains. Today, we are one of the largest independently owned Texas banks with nearly \$5 billion in assets and more than 30-area locations.

Helping You Find Your Home Sweet Home

Because we've been in the neighborhood longer than most, the ANBTX Mortgage Team understands the keys to being successful in the North Texas housing market. We have loans for all types of homes. And we've built a mortgage process that's easier, so we can get your mortgage approved and closed faster.

Let us help you move forward.



Understanding Mortgage Terms



Adjustable Rate Mortgage(ARM)

A loan in which the interest rate changes periodically based on a standard financial index. Most ARM's have caps on them.

Amortization

The distribution of loan repayments into monthly installments, as determined by an amortization schedule. Each payment is applied to both principal and interest with a greater amount of the payment going toward interest at the beginning of the loan and more toward principal at the end.

Annual Percentage Rate (APR)

Standardized method of calculating the cost of a mortgage, determined as a yearly rate, which includes such items as interest, mortgage insurance and certain points or credit costs. Because it includes other charges, it is higher than the interest rate a lender will quote.

Appraisal

A written report by a qualified appraiser estimating the value of the property.

Closing Costs

Expenses incurred as part of the loan closing. Closing costs normally include origination fees, attorney's fee, taxes, escrow payments, title insurance and sometimes discount points. Lenders must provide estimates of closing costs to prospective home buyers.

These are generally fixed fees between the lender, the title company, and third-party vendors involved in the origination and closing of the transaction.

Closing Disclosure (CD)

The Closing Disclosure (often referred to as the CD) is a 5-page form that provides the final details about the mortgage. This breaks down the loan terms, your monthly payment, and a detailed itemization of fees associated with the

loan. This is required to be signed and returned within 24 hours of receipt. Failure to provide the signed CD can result in an unnecessary delay in closing.

Debt-to-Income Ratio

A debit-to-income ratio is the comparison of your gross income (before taxes) to your monthly expenses, both with and without your housing expenses. Most programs require your monthly mortgage payment to be no more than 29% of your monthly gross income and the mortgage payment combined with other expenses should not exceed 41% of your income. These requirements vary so it is important to speak with an expert Loan Officer.

Down Payment

The amount of a property's purchase price that the buyer pays up front and does not finance with a mortgage. Most mortgages require a down payment between 5-20%; however, low down payment options may be available for those who qualify. When a down payment is less than 20%, most programs require Private Mortgage Insurance (PMI).

Escrow

Escrows (also called "impounds") are when a customer has taxes and insurance included as part of the monthly mortgage payment. An account is established and when the taxes and insurance come due, the escrow provider will issue payment to these entities. Mortgage payments that include taxes and insurance are sometimes referred to as PITI payments (see PITI below). **Also:** An account in which a neutral third party holds the documents and money in a real estate transfer until all conditions of a sale are met. (For example, California is an Escrow state and requires the use of an escrow company to close on the purchase of a home).

Equity

Equity is the difference between the current market value of a property and the total debt obligations against the property. On a new purchase loan, the down payment represents the equity in your home.

FHA (Federal Housing Administration) Loans

FHA loans are loans insured by the U.S. Department of Housing and Urban Development (HUD). FHA loans are designed to make housing more affordable, particularly for first-time homebuyers. FHA loans typically permit borrowers to buy a home with a lower down payment than conventional loans or refinance with less home equity.

Fixed-Rate Mortgage

A home loan in which the interest rate will remain the same through the life of the loan, most often 15 or 30 years.

Foreclosure

The legal process by which a homeowner is in default on a mortgage. This usually involves a forced sale of the property at a public auction with the proceeds of the sale being applied to the mortgage debt.

Funds to Close

The total amount required, including down payment and closing costs, to be brought to closing by the borrower. Your trusted Loan Officer will discuss this information in detail with you. This is also disclosed on the Closing Disclosure (CD) prior to closing to ensure there are no surprises when you get to the closing table.

Guideline Ratios

There are two guideline ratios used to qualify you for a mortgage. The first is called the front-end ratio, or top ratio, and is calculated by dividing your new total monthly mortgage payment by your gross monthly income. The second is called the back-end, or bottom ratio, and is equal to your new total monthly mortgage payment plus your total monthly debt divided by your gross monthly income.

Homeowner's Insurance

An insurance policy that includes hazard coverage for the loss or damage to a property, as well as coverage for personal liability and theft.

Interest Rate

A basic mortgage payment is made up of principal and interest. The principal is the amount borrowed from the lender. The interest rate is the cost of borrowing that money, which is secured by the property. The amount of interest you owe the lender depends on the interest rate and loan amount—the lower the interest rate, the less interest you owe.

Jumbo Loan

Jumbo loans are mortgages larger than the limits set every January by government agencies such as Fannie Mae (FNMA) and Freddie Mac (FHLMC).

Loan-To-Value

Loan-to-value (LTV) is the ratio of how much you borrow compared to the value of the home. (Loan Amount / Appraised Value = LTV)

Margin

On an adjustable rate mortgage (ARM), the margin is a fixed percentage rate that is added to an indexed rate to determine the fully indexed interest rate. While the margin does not adjust, the index can, therefore the fully indexed rate can adjust also.

Origination Fees

Loan origination fees are fees charged by a lender to cover the administrative costs of processing a loan. The origination fee is also used in the calculation of the annual percentage rate.

PI Payment (Principal & Interest)

PI (Principal & Interest) are the components of a monthly mortgage payment. Payments are split with a portion going to the principal balance of the mortgage and a portion going toward paying off the interest on the amount

borrowed. The payment is typically more toward interest at the beginning of the loan and more toward principal toward the end of the loan.

PITI (Principal, Interest, Taxes, Insurance)

PITI (Principal, Interest, Taxes and Insurance) are the components of a monthly mortgage payment. Payments of principal and interest go directly toward repaying the loan while the portion of the PITI payment that covers taxes and insurance go into an escrow account to cover the associated charges when they are due.

Points

Factored into the loan's APR, a point equals 1 percent of the loan amount. 'Origination Points' are points charged on the loan that are paid by the borrower at closing, whereas 'Discount Credits' are points provided to the borrower as a credit toward closing costs on the loan.

Prepaid Closing Costs

These are the amounts paid at closing prior to being due to establish the escrow account. This includes taxes, homeowners insurance, flood insurance, private mortgage insurance, and per diem (daily) interest.

Principal

The amount of debt, excluding interest, left on a loan.

Private Mortgage Insurance (PMI)

An insurance policy that protects the lender against default on loans by providing a way for mortgage companies to recoup the costs of foreclosure. PMI is usually required if the down payment is less than 20% of the sale price.

Term

The duration of the life of the loan. For example, a 30-year fixed loan has a term of 30 years.

Title

The title is the actual document that indicates

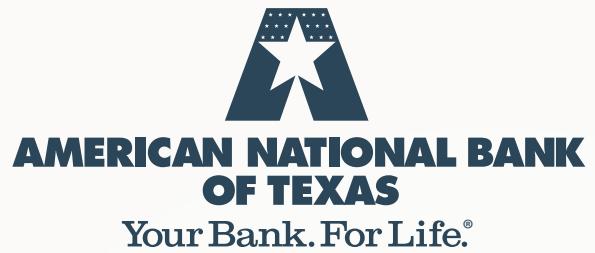
the rights of ownership and possession of the property. Individuals who will have legal ownership in the property are considered 'on title' and will sign the mortgage and other documentation. Before your closing, a title search will be conducted to ensure that a chain of ownership for the property is documented, and that it is not subject to any unacceptable liens.

Title Insurance

A policy that guarantees that an owner has title to a property and can legally transfer title to someone else. Should a problem arise, the title insurer pays any legal damages. A policy may protect the mortgage lender, the home buyer, or both.

Underwriting

Mortgage underwriting includes a review of the potential borrower's credit and employment history, financial statements and a judgement of the quality of the property. The person who completes the underwriting service is called an underwriter.



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