Get Organized

- You will likely have to provide extensive personal documentation to obtain a mortgage
- Lenders typically request documents related to your employment and income, financial position and tax history
- This is so the lender can verify your income and assets and evaluate your credit-worthiness as a buyer
- The requested documents may vary somewhat by lender but will likely include the items listed on the right
- Typically you are not asked to provide personal documents until later in the mortgage process but having these documents available and organized at the beginning of the process will make things go much smoother

Mortgage application document list

- Pay Stubs (two months)
- W-2 (two years)
- Tax returns (two years)
- Bank statements (two months)
- Investment account statements
- IRA /401K / pension statements
- Current statements for outstanding debt such as credit card, auto and student loans

If you are self-employed:

- Business License
- Schedule C
- Corporate tax returns
- Partnership returns

If you own income producing real estate:

- Schedule E
- Leases
- Schedule of real estate owned

FreeandClear®

HOME PURCHASE MORTGAGE PROCESS TIMELINE

The timetable to obtain a home purchase mortgage varies depending on many factors but the process typically takes six-to-ten weeks

WEEK 1

MORTGAGE QUALIFICATION CALCULATORS

GET ORGRANIZED

GATHER FINANCIAL DOCUMENTS:

- Pay Stubs
- W-2s
- Tax Returns
- Bank Statements

DETERMINE WHAT SIZE MORTGAGE AND PROPERTY PRICE YOU CAN AFFORD

USE:

FREEandCLEAR.com MORTGAGE QUALIFICATION CALCULATORS

ORDER FREE CREDIT REPORT

CHECK OUT:

Credit Karma

AnnualCreditReport.com

WEEKS 2-6

Form 1003 (Mortgage App) | Good Faith Estimates | Truth-in-Lending Statement | Lender Fees Worksheet

MORTGAGE COMPARISON CALCULATOR

CONTACT LENDERS $

INTERVIEW LENDERS

SUBMIT MORTGAGE APPLICATION

REVIEW:

MORTGAGE APPLICATION (FORM 1003)

COMPARE LENDER PROPOSALS

REVIEW:

GOOD FAITH ESTIMATE (GFE)
TRUTH-IN-LENDING STATEMENT (TIL)
LENDER FEES WORKSHEET

SELECT LENDER

USE:

FREEandCLEAR.COM MORTGAGE COMPARISON CALCULATOR

SELECT MORTGAGE PROGRAM

REVIEW:

FREEandCLEAR.COM MORTGAGE PROGRAMS

GET PRE-APPROVED FOR YOUR MORTGAGE

SELECT REAL ESTATE AGENT

FIND YOUR DREAM HOME

CHECK OUT:

trulia

Zillow.com

REALTOR.com®

ACCEPTED OFFER TO PURCHASE PROPERTY

REVIEW:

Offer to Purchase

WEEKS 6 - 10

HUD-1

FINISH LINE

FINALIZE YOUR MORTGAGE APPLICATION

LOCK YOUR MORTGAGE

CLOSING AGENT OPENS ESCROW

CLOSING AGENT ORDERS TITLE REPORT

LENDER ORDERS APPRAISAL

RECEIVE LENDER UNDERWRITING APPROVAL

CLOSING AGENT ISSUES ESTIMATED HUD-1

REVIEW HUD-1

CLOSING AGENT ORDERS LOAN DOCUMENTS

Grant Deed | Deed of Trust | First Payment Letter

REVIEW & SIGN DOCUMENTS

FUND MORTGAGE

RECORD MORTGAGE DOCUMENTS

CLOSING!

CLOSING AGENT ISSUES FINAL HUD-1

Buying Versus Renting

- People embarking on the mortgage process for the first time, however, are frequently weighing the option of owning a home versus renting
- The chart below weighs the pros and cons of buying versus renting a home
    - The main advantage to home ownership is the opportunity to build equity in the property over time, benefit from any increase in property value and to eventually pay-off your mortgage and eliminate your housing expense
    - The main disadvantage of home ownership is the required down payment, the potential long-term financial commitment of making a mortgage payment and potential loss of money in the event of a decrease in property value or foreclosure
- On the following page we perform a financial comparison of buying versus renting
- You can also use our BUY VERSUS RENT COMPARISON CALCULATOR for a finacial analysis of the trade-offs

	Buy	Rent
Pros	Pride of ownership	Limited financial obligation – you do not have to pay back a mortgage
	Build equity and realize any increase in property value	Requires deposit but no down payment
	Mortgage interest income tax deduction	Reduces the chance you will mess up your credit score
	Do not have to deal with landlord	Shorter time commitment and potentially more financial flexibility
	Potentially fixed mortgage payment for 30 years	Limited responsibility for maintenance and repair
	Free to decorate the property as you wish	Less concerned about changes in property value
	Pay off your mortgage and then start paying yourself – check out our FREEandCLEAR Mortgage Acceleration Strategy discussion to learn more about this	
Cons	Typically requires down payment	No opportunity to build equity
	Potential loss of equity / down payment in the event of foreclosure or a decline in property value	No mortgage interest income tax deduction
	Potential long-term responsibility to make mortgage payment	Rent Increases
	You are responsible for repairs or maintenance	Dealing with landlords
	Costs not associated with renting such as property tax, homeowners insurance and potentially homeowners association fees and other housing expenses	Restrictions on decorating or changing property
		Risk of eviction
		You do not benefit if property values increase

Your Credit Score and the Mortgage Process

- One of the most important inputs in the mortgage process is your credit score so it's very important that you know your score before you start the mortgage process
- We recommend that you review your credit report and score six months to a year before you start the mortgage process
    - This will help you avoid negative surprises and address potential issues with your credit report in advance of applying for a mortgage
- In short, your credit score provides an indication of how likely you are to pay back your mortgage and lenders focus on it when determining how much money they are willing to lend you and the cost to you for borrowing that money (the interest rate)
- A higher credit score means that lenders will be more willing to lend you money and charge you their lowest interest rate
- A lower credit score means that lenders will be less willing to lend you money and charge you a higher interest rate if they do
- The graphs below show you how to interpret your credit score and illustrate the connection between credit score and interest rate
- The charts below are examples

Credit Score Ranking

760-850	Excellent
700-759	Very Good
723	Median FICO Score
600-699	Good
687	Average FICO Score
620-659	Not Good
580-619	Poor
500-579	Very Poor

THE HIGHER YOUR SCORE, THE BETTER YOUR CREDIT

Credit Score & Interest Rates

CREDIT SCORE	30-YEAR FIXED RATE
720-850	4.250%
700-719	4.375%
680-699	4.500%
620-679	4.625%
560-619	9.500%
500-559	10.500%

"HARD MONEY" May Require Loan-to-Value of 60% or Less

THE LOWER YOUR SCORE, THE HIGHER THE INTEREST RATE

- A lot of inputs go into determining your credit score and while we will not go into to detail on how your credit score is calculated, we highly recommend that you know your score as one of the first steps to the mortgage process
- The good news is that there are several sites where you can download your credit score for free
    - Do not be fooled by all of those commercials with the catchy jingles – you do not have to pay for your credit report!
- Check out one of the sites below and then compare your score against the charts above to help determine how lenders will view you as a borrower

Credit Karma™

AnnualCreditReport.com

Understanding Gross and Net Income

- While most of us have a pretty good handle on our gross and net income we thought it would be useful to include a quick refresher on the topic because it is important to understand how both figures factor into the mortgage process
- You can also check out our MONTHLY GROSS INCOME CALCULATOR to help you with the math

Understanding Gross and Net Income	
Gross Income	- Monthly gross income is the amount of money you make before any deductions - Your paycheck states a gross income for the period worked as well as all of the deductions that are subtracted from the gross income
Net Income	- Net income is what most of us refer to as take-home pay - Net income is the money we actually get to keep and spend on things like mortgages - The difference between gross income and net income are the various deductions that are subtracted from our paychecks – mostly taxes. Some of the most common deductions include federal and state income taxes, Social Security tax (also known as FICA), Medicare tax, as wells as health insurance and 401K contributions
Which figure is more important: gross or net	- Both. The reason we cover both gross and net income is because they are both used in the mortgage process – just by different parties - Most borrowers think about their net income when determining their ability to make a mortgage payment - Lenders, on the other hand, look at a borrower's gross income when determining how much someone can afford to borrow - We will delve deeper into this topic when we examine mortgage ratios but understanding how lenders think will give you an advantage as you manage the mortgage process
Calculating your monthly income	- If you are paid on a monthly basis, then it is pretty straightforward to determine your monthly gross and net income. Many people, however, are paid weekly, bi-weekly or bi-monthly, in which case it may be a bit tricky to calculate your monthly income figures

Understanding Monthly Housing Expense

- As a first-time home buyer it is super important to realize that your mortgage payment is only one component of the numerous expenses that you are responsible for when you own a home and have a mortgage
- When you think about the costs involved in having a mortgage you need to focus on your total Monthly House Expense, or MHE. By focusing on your MHE you will be able to select the mortgage that is right for you and properly manage your monthly budget
- A breakdown and explanation of the components of MHE are below – the better you understand them, the more likely you are to avoid any unpleasant surprises over the life of your mortgage

Monthly Housing Expense (MHE) components	
Mortgage Payment	– Represents the monthly cost of borrowing money from a lender and is typically the largest component of MHE – Mortgage payments are typically comprised of principal and interest components • Without going into too much detail, the mortgage payments for amortizing mortgages, or mortgages where the loan balance is paid down over time, have both a principal and interest component
Principal	– The component of your mortgage payment that goes to pay down your loan amount
Interest	– The component of your mortgage payment that represents the cost of borrowing money from a lender. Interest payments do not reduce your loan amount
Property taxes	– Most states charge a tax when you own a property – Property taxes vary by county and can range from 0.5% to 3.0% of the value of the property – So if you buy a home for $300,000 and the property tax rate in your county is 1%, then your annual property tax bill is $3,000, or $250 per month – Some, typically newer, housing projects may also include a Special Property Assessment Tax to pay new infrastructure like roads and schools
Homeowners Insurance (also known as Hazard Insurance)	– This is insurance in case something bad happens to your house – Insurance premiums vary depending on the value of your property and where it is located and the type of policy you purchase in terms of coverage level and deductible – Homeowners' insurance can run from several hundred to several thousand dollars per year
Home Owner Association (HOA) Fees	– Also known as HOA fees, most condominium complexes and some housing projects charge property owners monthly fees for the maintenance and upkeep of the project – Some HOA fees may also include homeowners' insurance as well – HOA fees vary depending on many factors including the size and age of the complex and value of the properties. HOA fees can run from less than $100 per month to over $1000 per month
Private Mortgage Insurance (PMI)	– Depending on your loan type, the size of your loan and the amount of your loan relative to the value of your property (Loan-to-Value or LTV ratio), you may be required to pay private mortgage insurance, or PMI – PMI is typically required when the LTV ratio exceeds 80% (so the amount of your loan exceeds 80% of the value of your house) – PMI typically requires the borrower pay an ongoing annual fee, paid monthly. PMI fees vary depending on many factors including LTV ratio, credit score, mortgage term, mortgage amount and mortgage type and can range from .20% to 1.65% of the mortgage amount
Mortgage Insurance Premium (MIP)	– If you obtain an Federal Housing Administration (FHA) loan you are required to pay an up-front and ongoing annual Mortgage Insurance Premium (MIP) which is an additional cost on top of the monthly mortgage payment • The FHA offers government-backed mortgage programs designed to help low-income individuals and individuals with limited funds buy a home – The up-front MIP is 1.75% of the mortgage amount – The amount of ongoing MIP depends on mortgage amount, loan-to-value (LTV) ratio and mortgage term

The Tax Benefits of Home Ownership

- One of the most important benefits of buying a home and having a mortgage is the mortgage interest expense income tax deduction
- For most borrowers, the mortgage interest expense income tax deduction has a significant, positive financial impact on monthly housing expense and is an important factor in determining how much home they can afford
- According to federal tax code, mortgage interest and property tax expenses are deductible against a borrower's gross income. The lower your reported gross income, the less tax you pay
- Just to be clear, your mortgage interest expenses are not directly deducted from taxes owed on a dollar-for-dollar basis, but rather reduce the gross income figure that is used to determine the amount of federal tax that you owe
- Additionally, you do not receive any money directly from the federal government as the result of the interest expense income tax deduction but you do pay less in federal taxes, which in turn lowers your monthly housing expense (so instead of receiving a monthly check from the government for the tax deduction, you owe the government less taxes)
- The example below illustrates how the mortgage interest expense income tax deduction works
- The example shows the impact on a borrower who makes $75,000 per year, or $6,250 per month, in gross income
- The borrower has a $380,000 mortgage with a 4% interest rate and pays $4,700 per year in property taxes
- The interest expense income tax deduction results in a tax savings of $3,915 per year, or $325 per month, reducing the borrower's monthly housing expense from $2,300 to $1,975
- Use our MORTGAGE INTEREST TAX DEDUCTION CALCULATOR to determine the tax benefit of any mortgage

Mortgage Interest Expense Income Tax Deduction Example

	Without Tax Deduction	With Tax Deduction	
Gross income	$75,000	**$75,000**	
Monthly housing expense before tax benefits	$2,300	**$2,300**	
Deductions			
Mortgage interest	$0	**$14,880**	Deductions reduce gross income for calculating taxes
Property tax	$0	**$4,700**	
Total Deductions	$0	**$19,580**	
Gross income after deductions for interest and property tax	$75,000	**$55,420**	
Tax paid after deductions (@ 20% tax rate)	$15,000	**$11,085**	Lower tax bill
Tax savings			
Per Year	$0	**$3,915**	
Per Month	$0	**$325**	Tax Savings Reduce MHE
Monthly housing expense after tax benefit	$2,300	**$1,975**	

What Size Mortgage Can You Afford?

- One of the best ways to think about mortgage affordability is to figure out how much of your net income you want to spend on your monthly housing expense (MHE)
- The amount of MHE you can afford and are comfortable with will determine the size of mortgage you can afford
- Based on many years of experience we have found that borrowers will spend approximately 52% of their net income on their MHE
    - The 52% guideline is not hard and fast but it serves as a good guide for borrowers
- If you want to go one step deeper into the 52% guideline, you can break it down into two primary components:
    1. Monthly mortgage payment
    2. Other MHE
- Borrowers typically spend 43% of their net income on their mortgage payment and 9% of their net income on the other MHE expenses, such as property taxes, insurance and HOA fees. So 43% (mortgage payment) + 9% (other MHE) = 52%
- Complementing the 52% guideline is the 62% guideline which takes into account monthly payments on other debts such as auto, credit card, student loans and spousal support
- Based on many years of experience we have found that borrowers will spend approximately 62% of their net income on their combined MHE and other monthly debt payments
- The good news according to this guideline is the less other monthly debt you have, the more you can spend on your MHE
- Once you determine how much of your monthly net income you have available for MHE, you can calculate how big of a mortgage you can afford
- On the next page we provide examples that demonstrate how to apply these guidelines to determine what size mortgage you can afford
- You can also use our **MORTGAGE QUALIFICATION CALCULATORS** and input your own net income and debt level to determine what size mortgage you can afford

Example: What Size Mortgage Can You Afford?

- The following examples illustrate how you can determine what size mortgage you can afford
  - The examples demonstrate how mortgage affordability is impacted by non-housing related monthly debt expenses such as auto and student loans and credit card debt
- In the first example below we look at a borrower that makes $4,235 in monthly net income and has $425 in other non-housing monthly debt expenses and apply the 43%, 52% and 62% guidelines to determine what size of mortgage the borrower can afford
- You can also check out our FREEandCLEAR MORTGAGE QUALIFICATION CALCULATORS to learn what size mortgage you can afford

Borrower Ratios Example #1

	Application of Guideline	Results
43% Guideline	43% of the borrower's net income of $4,235 equals $1,820	The borrower can afford a monthly mortgage payment of $1,820
52% Guideline	52% of the borrower's net income equals $2,200	The borrower can afford $2,200 in total monthly housing expense (mortgage payment plus property taxes and insurance)
62% Guideline	62% of the borrower's net income equals $2,625	The borrower can afford to spend $2,625 on total monthly housing expense and all other debt expenses

Mortgage Size

Mortgage affordability

- Based on the amount of monthly net income that the borrower should spend on his or her mortgage payment and total monthly housing expense, the borrower can afford a mortgage of $380,000
- Mortgage affordability is based on a 30 year fixed rate mortgage at a 4.0% interest rate
- A change in interest rate or mortgage term will change the size of mortgage the borrower can afford
- The Loan-to-Value ratio (LTV) and type of mortgage program you select may also impact the size of mortgage you can afford
  - If your LTV is greater than 80%, you may be required to pay private mortgage insurance, or PMI, which is an extra ongoing cost in addition to your monthly mortgage payment and therefore reduces the size of mortgage you can afford
  - If you select an FHA mortgage program, you will be required to pay a Mortgage Insurance Premium (MIP), which is an extra up-front and ongoing cost in addition to your monthly mortgage payment and therefore reduces the size of the mortgage you can afford

Example: What Size Mortgage Can You Afford? (continued)

- In the example below we look at a borrower that makes $4,235 in monthly net income but has only $225 in other non-housing monthly debt expenses and apply the rules to determine what size of mortgage the borrower can afford
- Because the borrower in this example has less non-housing monthly debt he or she can exceed the 43% and 52% guidelines and afford a bigger mortgage
- This example demonstrates that the 43%, 52% and 62% guidelines are not set in stone but rather guidelines that can be influence by several factors

Borrower Ratios Example #2

	Result	Key Takeaways
62% Guideline	62% of the borrower's monthly net income equals $2,625	- The borrower can afford to spend $2,625 on total monthly housing expense and all other debt expenses
Total Monthly Housing Expense	The borrower can spend $2,400 on total monthly housing expense	- The borrower can afford $2,400 in total monthly housing expense ($2,625 in total monthly housing expense minus $225 in other non-housing monthly debt expenses)
Monthly Mortgage Payment	The borrower can afford a monthly mortgage payment of $2,020	- The borrower can afford a monthly mortgage payment of $2,020, which represents 48% of the borrower's net income - The borrower can afford to spend more than 43% of his or her monthly net income on the monthly mortgage payment because the less non-housing monthly debt you have the more you can spend on your mortgage payment

Mortgage Size

Mortgage Affordability	- In this example, based on the lower amount of non-housing monthly debt that the borrower has, the borrower can afford a larger mortgage amount of $423,000 - Mortgage affordability is based on a 30 year fixed rate mortgage at a 4.0% interest rate

What Size Down Payment Do I Need to Make?

- Understanding what size of mortgage you can afford is only one piece of the equation in determining the price of the home you can afford. The other piece of the equation is your down payment
- The down payment is money that you contribute when you purchase the home that you do not get back until you sell the home
  - So if something unfortunate happens such as selling your home for less than you paid for it or your home going into foreclosure, then you could lose part or all of your down payment
- The down payment you can afford plus the mortgage you can afford equals the price of the home you can afford
- Borrowers frequently ask what size down payment they need to buy a home as saving money for a down payment can be challenging
- There is no set rule for what size down payment you need to make when you buy a home but there are some guidelines and financial considerations you should be familiar with
- In order to receive the lowest interest rate for your mortgage, most lenders expect a borrower to make a down payment of at least 20% of the purchase price of the home
- Lenders have guidelines that specify an acceptable loan-to-value (LTV) ratio, or the amount of money they are willing to lend you compared to the value of the house
- Lenders typically expect an LTV ratio of 80% or less, which means you are contributing a down payment equal to 20% or more of the purchase price of the home
  - For example, if you are buying a home for $100,000, if you want to receive the best interest rate, your down payment would be at least $20,000 and you would borrower the remaining $80,000 from the lender
  - In this example, the loan-to-value ratio is 80% ($80,000 mortgage ÷ $100,000 property value = .80 = 80%)
  - You also need to take into account mortgage closing costs in determining how much up-front money is required to purchase a home and closing costs can run thousands of dollars
- So a 20% down payment is the standard down payment amount when buying a home but it is certainly possible to buy a home with a smaller down payment.
- If your down payment is less than 20%, the lender will likely charge a higher interest rate or require the borrower to purchase private mortgage insurance (PMI), which increases your mortgage costs
  - PMI typically requires that the borrower pay an ongoing annual fee, paid monthly. PMI rates vary but can be approximately .5% of the mortgage amount for a 30 year loan with a loan-to-value ratio of 90% (so when the borrower makes a down payment of 10%)
- Instead of charging PMI, some lenders may charge a higher interest rate. So the lender may offer you an interest rate of 4.0% if you make a down payment of 20% and an interest rate of 4.5% if you make a down payment of 10%
  - In many cases paying a higher interest rate can cost the borrower more than paying PMI fees because the borrower pays the higher interest rate over the life of the mortgage unless they are able to refinance
  - So if you decide to make a down payment of less than 20% and the lender does not require that you pay PMI, be sure to ask the lender if PMI is included in the interest rate, and if the answer is yes, ask what the interest rate would be if you pay for PMI separately as this could save you a significant amount of money over the life of your mortgage
- There are also multiple government-backed mortgage programs such as those offered by the VA and FHA that allow you to buy a home with a down payment of less than 20% and in the case of the VA program require no down payment
  - The FHA program allows the the borrower to buy a home with a down payment as low as 3.5% of the property purchase price but the borrower is required to pay an up-front and ongoing annual mortgage insurance premium which are additional costs on top other closing costs and your monthly mortgage payment
  - With the VA program, the borrower is required to pay a one-time, up-front VA funding fee in addition to other mortgage closing costs
- So you can certainly buy a home with less than 20% down but it is going to cost you more in fees or increased interest expense
- When determining the size of down payment that is right for you, always remember to keep enough savings in reserve to cover four-to-six months of monthly housing expense. This will allow you to absorb any unexpected changes in your financial situation

Example: Down Payment

- The example below shows the down payment required to purchase a $475,000 house with a 20% down payment, which implies a Loan-to-Value (LTV) ratio of 80%
- This example also shows the estimated non-recurring and recurring closing costs paid for by the borrower. The down payment plus the estimated closing costs equals the amount of up-front money required by the borrower to purchase the property
  - At the time of closing, the borrower is requred to pay non-recurring closing costs such as lender, appraiser, title company, escrow and attorney fees (if applicable) as well as recurring costs such as partial interest (from the day your mortgage closes until the end of that month), pro-rated property taxes , homeowners association fees (where applicable) and impounds
  - The example below provides a summary estimate for total mortgage closing costs including both non-recurring and recurring costs. This figure is an estimate as closing costs vary by lender, mortgage program and geography
- This example also shows the recommended minimum amount of savings the borrower should keep in reserve for this mortgage ($9,200 in this case, which represents four months of total monthly housing expense ($2,300))
- Use our DOWN PAYMENT CALCULATOR to understand the required down payment based on home price and Loan-to-Value (LTV) ratio
- You can also input your down payment and other financial information into our MORTGAGE QUALIFICATION CALCULATORS to determine what price of home you can afford

20% Down Payment Example	
Home Purchase Price	$475,000
Down Payment	$95,000
Mortgage Amount	$380,000
Loan-to-Value (LTV) ratio	80%
Estimated Non-Recurring Closing Costs	$8,000
Total Up-Front Money Required	$103,000 (down payment ($95,000) + estimated closing costs ($8,000))
Estimated Monthly Housing Expense	$2,300
Recommended Minimum Savings in Reserve	$9,200 (four months of monthly housing expense)

What Price Home Can I Afford?

- How much home you can afford is based on two things:
    1. Down payment: the money you contribute to buying the home
    2. Mortgage: the amount of money you borrow from a lender
        - Down payment + mortgage = how much home you can afford

Down Payment

- The down payment is money that you put in when you purchase the home that you do not get back until you sell the home
- So if something unfortunate happens such as selling your home for less than you paid for it or your home going into foreclosure, you could lose part or all of your down payment
- In order to receive the lowest interest rate for your mortgage, most lenders expect a borrower to make a down payment of at least 20% of the purchase price of the home
    - For example, if you are buying a home for $250,000 your down payment would be $50,000 – $250,000 times 20% equals $60,000
- If your down payment is less than 20%, the lender will likely charge a higher interest rate or require the borrower to purchase private mortgage insurance (PMI) to protect the lender in case you do not pay back your mortgage
    - PMI typically requires that the borrower pay an ongoing annual fee, paid monthly
- Some lenders may charge a higher interest rate instead of charging PMI
    - A higher interest rate can cost the borrower more than paying PMI fees because the borrower pays the higher interest rate over the life of the mortgage unless they are able to refinance while PMI fees can be removed after the amount of your mortgage falls below 80% of the value of your house
- There are also multiple government-backed programs that enable you to purchase a home with a down payment of less than 20%
    - The FHA home loan program allows you to purchase a home with a down payment as low as 3.5%
    - The VA home loan program for active and retired military personnel requires no down payment
- When you're thinking about your down payment, you also need to take into account mortgage closing costs, which can run thousands of dollars, and remember to keep enough savings in reserve to cover four-to-six months of total monthly housing expense

What Price Home Can I Afford? (continued)

Mortgage Amount

- To determine what size mortgage they can afford, people typically want to understand how much of their net income they should spend on their mortgage payment and total monthly housing expense
- Although there are no strict rules, the table below outlines some general guidelines for how much of your monthly net income you should spend on your mortgage payment, total monthly housing expense and total monthly housing expense plus other debt. Applying these guidelines to your personal financial situation will help you determine what size mortgage you can afford
  - In the table below, we show an example for a borrower with $5,000 in monthly net income
  - It's important to emphasize that the guidelines look at monthly NET income, or your income after any deductions, which is also known as your take-home pay

		Maximum % of Borrower Monthly Net Income		Borrower Monthly Net Income		What Borrower Can Afford to Spend
1	Monthly mortgage payment	43%	x	$5,000	=	$2,150
2	Total monthly housing expense (mortgage payment plus property tax, homeowners insurance and other applicable housing-related expenses)	52%	x	$5,000	=	$2,600
3	Total monthly housing expense plus other monthly debt (such as credit card, auto and student loans)	62%	x	$5,000	=	$3,100

- In the example above, the borrower can afford to spend up to:
  - $2,150 on their monthly mortgage payment
  - $2,600 on total monthly housing expense (which means they are spending $450 a month on non-mortgage housing expenses such as property taxes and homeowners insurance)
  - $3,100 on total monthly housing expense plus other debt (so the borrower can afford to spend $500 a month on other debt such credit card payments)
- It's important to highlight that the less monthly debt you have the higher the mortgage payment and larger the mortgage you can afford
  - So in example above, if our borrower has less than $500 in monthly debt, they can afford a larger mortgage amount
- After you determine what size mortgage payment you can afford, you can figure out what size mortgage you can afford which depends on the interest rate and term, or length, of the mortgage
- Returning to the example above where the borrower can afford a monthly mortgage payment of $2,150, let's look at a thirty year fixed rate mortgage with three different interest rates – 4%, 5% and 6% -- and show what size mortgage our borrowers can afford at each interest rate
  - 4% = $450,000 mortgage
  - 5% = $400,000 mortgage
  - 6% = $360,000 mortgage
- This example demonstrates the lower the interest rate, the larger the mortgage you can afford
- Additionally, the longer the mortgage term, the larger the mortgage you can afford

What Price Home Can I Afford? (continued)

What Price Home Can I Afford?

- Let's return to our original question of "What price home can I afford?" and the answer to this question is what size down payment you can afford plus what size mortgage you can afford
- Let's use the 4% interest rate scenario from our example above and say that our borrower can afford a $450,000 mortgage
- The question then becomes what size down payment can we afford? The table below outlines three scenarios – with the borrower making down payments of 5%, 10% and 20% – and shows what price home the borrower can afford at each down payment amount

Down Payment (%)	Down Payment Amount ($)		Mortgage Amount ($)		Home Price the Borrower Can Afford ($)
5%	$23,675	+	$450,000	=	$473,675
10%	$50,000	+	$450,000	=	$500,000
20%	$112,500	+	$450,000	=	$562,500

- In this example, if our borrower can afford to put 20% down, the down payment is $112,500, and if you add the $450,000 mortgage amount, the borrower can afford to purchase a $562,500 home
- This example provides a framework for thinking about what price home you can afford but the most important rule to remember is that you select a down payment and mortgage amount that you are financially comfortable with for the long term

What mortgage program is right for me?

- Selecting a mortgage program is one of the most important steps in the mortgage process
    - It is key to select a mortgage program that you are comfortable with and what type of mortgage program you choose also impacts what size mortgage you can afford
- There are three main types of mortgage programs
    - Fixed Rate Mortgage
    - Adjustable Rate Mortgage (ARM)
    - Interest Only Mortgage
- The chart on the following page summarizes and discusses the main pros and cons for each type of mortgage program. As illustrated by the chart, each program is suitable for a specific type of borrower in a specific situation
    - The most common type of mortgage program is a fixed rate mortgage because it involves the least amount of risk
        - This is because the monthly mortgage payment for a fixed rate mortgage can never increase and stays constant over the life of the mortgage
    - The primary reason to select an adjustable rate mortgage (ARM) is because the interest rate and mortgage payment are lower than a fixed rate mortgage during the initial fixed rate period of the loan
        - Another reason to select an ARM is if you think interest rates are going to decline significantly in the future although ARMs also carry the risk that your mortgage payment will increase if interest rates rise in the future
    - Interest only mortgages are the riskiest and least common type of loan program. The primary reason to select an interest only mortgage is because the mortgage payment during the initial interest only period of the loan is lower than the mortgage payment for a fixed rate mortgage or an ARM (because you are not paying principal). Additionally, you can typically qualify for a larger mortgage amount with an interest only mortgage
        - The downsides to an interest only mortgage are that your mortgage payment typically increases after the initial interest only period when you start paying both principal and interest plus your interest rate can increase in the future, which could also cause your mortgage payment to go up
- So what program is right for you? It all depends on you risk profile and financial goals
    - If you are looking for certainty, then a fixed rate mortgage probably works best
    - If you have a higher tolerance for risk and are looking for a lower monthly payment or larger mortgage amount, than an Adjustable Rate Mortgage or Interest Only Mortgage may be right for you
    - Additionally, if you know you are going to sell your home before the adjustable rate period for an ARM or an Interest Only Mortgage, they could be the right program for you
        - That way you benefit from the lower monthly mortgage payment during the initial period of the mortgage but you are not exposed to a potential increase in interest rates and mortgage payment during the adjustable rate period
        - This approach is not without risk either, as there is no guarantee you could sell your property for more than you paid for it
- Review the chart on the following page to learn about each type of mortgage so you can choose the program that best meets your financial objectives

What mortgage program is right for me? (continued)

Mortgage Program Comparison	Fixed Rate Mortgage	Adjustable Rate Mortgage (ARM)	Interest Only Mortgage (IO ARM)
Summary	- Interest rate and payment do not change over the life of the mortgage	- Fixed interest rate and payment for first 3, 5, 7 or 10 years (fixed rate period) - Then interest rate and payment can change (adjustable rate period)	- Pay only interest at fixed interest rate for first 3, 5, 7 or 10 years (interest only period) - Then pay both principal and interest plus interest rate and payment can change (adjustable rate period)
Pros	Certainty	Lower interest rate and payment during fixed rate period Lower payment if rates go down	Lower payment during interest only period Qualify for larger mortgage amount
Cons	Higher payment than ARM or Interest Only Locked into interest rate if you cannot refinance	Uncertainty Potential increase in interest rate and payment	Uncertainty Payment Increases when you starting paying principal Potential increase in interest rate
Risk Level	Lowest	Higher	Highest
Term	10-40 years 30 years most common	30 years	30 years
Amortizing Loan?	Yes	Yes	Only for part of term
Can interest rate increase?	No	Yes	Yes
Can interest rate decrease?	No	Yes	Yes
Lowest possible monthly payment			✓
Highest possible monthly payment			✓
Going to own property for short period of time		✓	✓
Going to own property for entire term of mortgage	✓		
Think interest rates will go up significantly	✓		
Think interest rates will go down significantly		✓	✓
Best for low interest rate environment	✓		
Best for high interest rate environment		✓	

What Length of Mortgage Should I Choose?

- One of the key decisions you make when you select a mortgage is to choose how long your mortgage should be
  - Lenders typically offer mortgages with 10, 15, 20, 25, 30 and 40 year terms, with the 30 year term being the most popular
- Understanding how mortgage term impacts what size mortgage you can afford, your monthly mortgage payment and total interest expense over the life of your mortgage will help you select the term that is right for you
- The table below outlines some basic guidelines on mortgage term:

Guideline	Explanation
Shorter term = lower interest rate	A shorter term means less risk for the lender providing you the loan and less risk means a lower interest rate for you
Shorter term = higher mortgage payment	Even though mortgages with a short term have lower interest rates, they have higher monthly payments because you are repaying the principal amount of the mortgage over a shorter period of time
Longer term = larger mortgage you can afford	For example, if you can afford to spend a maximum of $3,000 on your monthly mortgage payment, you will be able to afford a larger mortgage amount with a longer term than you could with a shorter term
Longer term = more interest expense	Even though your mortgage payment is higher with a mortgage with a shorter term, you pay much less in total interest expense over the life of the mortgage because you pay off your mortgage faster

The table below demonstrates how you can afford a larger mortgage with a longer mortgage term. Note how the monthly mortgage payment does not change while the mortgage size increases significantly as the mortgage term increases

- The table is an example as mortgage size and monthly mortgage payment vary depending on interest rates

	Mortgage Term			
	10 Years	15 Years	20 Years	30 Years
Interest Rate	3.00%	3.25%	4.00%	4.25%
Mortgage Size	$310,000	$427,000	$495,000	$610,000
Monthly Mortgage Payment	$3,000	$3,000	$3,000	$3,000

What Length of Mortgage Should I Choose? (continued)

- In the table below, we hold the mortgage size constant at $300,000 to demonstrate how the monthly mortgage payment decreases as the mortgage term increases but total interest expense over the life of the mortgage increases as the mortgage term increases
  - This example illustrates how getting a mortgage with a shorter term can save you hundreds of thousands of dollars in interest expense over the life of the mortgage

	Mortgage Term			
	10 Years	15 Years	20 Years	30 Years
Interest Rate	3.00%	3.25%	4.00%	4.25%
Mortgage Size	$300,000	$300,000	$300,000	$300,000
Monthly Mortgage Payment	$2,900	$2,110	$1,820	$1,475
Total Interest Expense	$48,000	$80,000	$136,000	$231,000

- Now that you have an understanding of how mortgage term impacts your interest rate, mortgage payment and total interest expense, we can return to the question of "What length of mortgage should I choose?"
- The answer to that depends on your financial goals
  - If you are seeking to maximize your mortgage amount and minimize your mortgage payment, then you should go with a 30 year mortgage term
  - If you can afford a higher monthly mortgage payment and want to save tens of thousands or even hundreds of thousands of dollars in interest expense over the life of your mortgage, then you should choose a shorter mortgage term, such as a 15 year mortgage
- At FREEandCLEAR we recommend that you pay off your mortgage as soon as possible so that you can start paying yourself instead of paying interest to the bank
  - Although most people select a 30 year mortgage term, consider choosing the shortest term that will also allow you to feel comfortable with your monthly mortgage payment
- One creative way to think about mortgage term is to get a mortgage with a 30 year term but make the same payment that you would with a 15 year mortgage, so a higher mortgage payment than what is required
- That way you maintain the flexibility of having a lower required monthly mortgage payment that goes along with a longer mortgage term (in case you cannot afford to make the higher payment), but you pay off your mortgage in 15 years and save hundreds of thousands of dollars in interest expense

Summary of Government-Backed First-Time Home Buyers Mortgage Programs

- There are several government-backed mortgage programs designed to help first-time home buyers obtain mortgages
- The table below summarizes some of the more common first-time home buyer programs and explains how they can work for you
- Many first-time home buyer mortgage programs are administered by state housing financing agencies or city and county housing commissions and program details may vary by state or county

First-time home buyer programs	
FHA Mortgage Program	– The Federal Housing Administration (FHA) offers government-backed mortgage programs designed to help low-income individuals and individuals with limited funds buy a home by enabling them to purchase a property with a down payment of only 3.5% – Although you do not have to be a first-time home buyer to qualify for the FHA Mortgage Program, the program works very well for first-time home buyers
VA Home Loan Program	– The U.S. Department of Veterans Affairs (VA) offers mortgage programs for active and retired military personnel, including individuals in the reserves and national guard, that enable them to purchase a property with no down payment and at favorable interest rates
Mortgage Credit Certificate (MCC) Tax Credit Program	– A program that provides qualified borrowers a federal income tax credit of either 15% or 20% of their annual mortgage interest expense as long as the buyer lives in the home
Down Payment Assistance Program	– Program that provides first-time home buyers with a silent second mortgage, also know as a subordinate loan, to assist them with their down payment or closing costs
Closing Cost Grants	– Programs that provide grants to help home buyers pay for closing costs
Individual Development Accounts	– An Individual Development Account, or IDA, is a special savings account to help people with low incomes save money for a specific purchase such as buying a house, paying for school or starting a small business

Mortgage Closing Costs

- Closing costs are the fees that a borrower is required to pay to numerous third parties at the time a mortgage closes
- Closing costs are typically thousands of dollars and are very important for borrowers to consider and understand when they obtain mortgages
  - It is important to compare closing costs in addition to interest rates when you evaluate mortgage proposals from multiple lenders
- There are two types of closing costs
  - Non-recurring closing costs: These are one-time, up-front costs that the borrower pays to various third parties to process and close the mortgage. Examples include lender, appraisal, title company, escrow and attorney (if applicable) fees
  - Recurring closing costs: These are costs that the borrower will continue to pay after the mortgage closes. Typically the borrower is required to pay a portion of these ongoing costs which are calculated based on at what time of year and day of month the mortgage closes. Examples include interest (from the day of closing until the end of the month in which your mortgage closes), pro-rated property taxes, homeowners association fees (if applicable), private mortgage insurance (PMI) (if applicable) and mortgage insurance premium (MIP) (if applicable)
- The table below outlines typical non-recurring and recurring closing costs when you obtain a mortgage
  - The table attempts to capture most closing costs across the mortgage industry but please note that closing costs vary by geography and lender so not all of these costs will be included for all mortgages
  - Additionally, closing costs vary depending on the mortgage amount with larger loans having higher costs
- The example on the following page provides a detailed case study on estimated closing costs for a mortgage

Closing Costs

Non-Recurring Closing Costs

Item	Description	Approximate Cost
Lender Fees	- Different lenders often use different terminology for the various fees and expenses they charge to process your mortgage which can be confusing to borrowers - Some lenders may charge no fee, a flat fee or break-out the fees into separate cost items as outlined below	- From $0 to 1.5% - 2.0% of mortgage amount
Origination Fee (or Points)	- Lender cost for processing the mortgage - One origination point equals 1.0% of the mortgage amount	- 1 point = 1.0% of mortgage amount
Administration Fee	- Cost for processing your mortgage	- $500 - $1000
Commitment Fee	- Lender costs for locking in rate (typically not charged)	- .25% - .50% of mortgage amount
Funding Fee	- Lender cost for funding mortgage - Some government-backed mortgage programs such as the Veterans Administration (VA) program charge a separate funding fee in addition to any funding fee charged by the lender	- $695 - $1,295
MERS Fee	- A lender cost to register the mortgage in the Mortgage Electronic Registration System (MERS)	- $13 - $25
Rate Lock Extension Fee	- A fee charged to extend the period of time for which your interest rate is locked (typically not charged)	- .25% - .50% of mortgage amount
Underwriting Fee	- Lender cost for reviewing borrower documents and determining mortgage qualification	- $695 - $995
Wire Transfer Fee	- Lender cost for wiring funds to settlement agent	- $25 - $100
Discount Points (optional)	- A one-time, up-front fee equal to 1.0% of the mortgage amount charged by the lender or mortgage broker to obtain a lower interest rate than the borrower would otherwise receive - Optional cost to the borrower	- 1 point = 1.0% of mortgage amount
Mortgage Broker's Fee (if applicable)	- Fee paid to mortgage broker, if you are working with a mortgage broker - The fee is typically expressed in points with one point equaling 1% of the mortgage amount	- 1 point = 1.0% of mortgage amount

Some lenders may charge no fee or a flat fee

Some lenders may break-out fees into separate cost items

Mortgage Closing Costs (continued)

Item	Description	Approximate Cost
Non-Lender Costs		
Appraisal Fee	Fee to obtain appraisal report	$400 - $750
Title Services Fees	Fee charged to provide title report and lender's title insurance	$490 - $700
Escrow Fee	Fee charged by escrow company to manage mortgage closing Escrow companies are typically used in the western U.S.	$800 - $2000
Attorney Fee	Fee charged by real estate attorney to manage mortgage closing Real estate attorneys are typically used in the eastern U.S.	$800 - $2000
Credit Report Fee	Fee charged to obtain a copy of your credit report	~$25
Flood Certification Fee	Fee to make sure that the property is not located in a flood plain	$15 - $20
Government Recording Charge	State and local fees to record your mortgage and title documents	~$150
Notary Fee	Fee paid for notarizing documents	$125 - $300
Tax Service Fee	Fee to set-up an account with tax service company to make sure you pay your property taxes	$60 - $100
Home Inspection Fee (optional)	Fee charged for home inspection report that identifies potential issues with property	$400 - $500
Termite Inspection Fee (optional)	Fee charged for termite report that identifies potential termite issues with property	~$50
Homeowners Association (HOA) Certification Fee (if applicable)	Fee charged by the HOA to provide information on the property	$50 - $300
Transfer Tax	Tax or fee charged by some local city government to transfer property ownership from seller to buyer **TYPICALLY PAID FOR BY SELLER**	~1% or more of the property purchase price

Recurring Closing Costs

Item	Description	Approximate Cost
Interest	Daily interest charge on your mortgage from the day of settlement (mortgage closing) until the end of the month in which your mortgage closes	Depends on interest rate and mortgage amount
Property Tax	Pro-rated amount of property tax due based on the time of year your mortgage closes and when your property tax is due	Property taxes vary by county and can range from 0.5% to 3.0% of the value of the property
Homeowner's Insurance (Hazard Insurance)	Charge to buy homeowners insurance, which is mandatory when you purchase a property	~0.1% - 0.2% of the property purchase price
Homeowners Association (HOA) Fee (if applicable)	Pro-rated amount of HOA fee due if the property you are buying requires an HOA fee	Determined by HOA; typically several hundred dollars per month
Private Mortgage Insurance (PMI) (if applicable)	Lenders typically require borrowers to purchase Private Mortgage Insurance (PMI) when the loan-to-value ratio for a mortgage exceeds 80% (so you put down less than 20% of the purchase price of the property you are buying)	Annual fee, paid monthly, that varies depending on many factors including LTV ratio, credit score, mortgage term, mortgage amount and mortgage type. Can range from .20% to 1.65% of the mortgage amount
Mortgage Insurance Premium (MIP) (if applicable)	If you obtain an Federal Housing Administration (FHA) loan you are required to pay an up-front and ongoing annual Mortgage Insurance Premium (MIP)	Depends on mortgage size, term and loan-to-value ratio

Get Pre-Approved for Your Mortgage

- It is important to get pre-approved at the beginning of the mortgage process
- Getting pre-approved for a mortgage demonstrates your ability to qualify for a certain loan amount prior to making an offer to purchase a property
- This gives you a big advantage when you are attempting to buy a home because you have removed one of the biggest risks from the process – your inability to obtain financing
- The pre-approval process focuses on what size mortgage the borrower can afford and the borrower's ability to make the monthly mortgage payment and pay back the mortgage
- Pre-approval shows sellers that you are both qualified financially and serious about the process
- Pre-approval qualifies the borrower and is typically related to a specific property
    - Even if pre-approval is tied to a specific property, it is subject to the lender approval of the terms of the home purchase contract, property appraisal, title and other documentation required to close your mortgage
    - So even if you are pre-approved for a mortgage, the lender will still need to provide final loan approval after you have selected the property you want to buy and your offer to purchase has been accepted by the seller
- Obtaining pre-approval typically requires a borrower to submit a mortgage application although some lenders may only require that the borrower provide certain financial information as opposed to a full loan application
- Understanding your lender options, asking the right questions and getting pre-approved for your mortgage at the start of the process will enable you to address potential issues and better position you to successfully obtain a mortgage when you buy a property

Understand your Lender Options

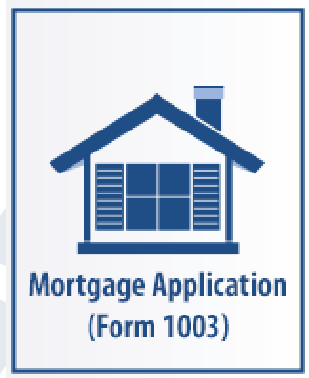
- After you have determined what size mortgage you can afford, the next step is selecting a lender
- It is important to realize that you have options when selecting a lender. You can use these options to create competition for your business and make sure you are getting the best price on your mortgage
- There are several types of lenders and each has pluses and minuses
- We highly recommend that you speak to a couple of lenders in each category and gather as much information as possible

Lender Options

Lender Type	Definition	Example	Pros	Cons
Banks	- Take deposits from customers and loan money to borrowers - Banks fund mortgages, which means they actually provide you the money for your mortgage - They may keep your mortgage or sell it to a third party in the secondary mortgage market	- Wells Fargo - Bank of America - Chase	Direct lender	May be more difficult to qualify for mortgage
Mortgage Broker	- Personal Mortgage Shopper - Work with multiple lenders to offer borrower the best mortgage product - Also referred to as third party originators - Do not fund loans but work with a number of funding lenders	- Typically smaller, local companies	Compare mortgage offers from multiple, competing lenders	Does not fund loans May not offer better mortgage terms
Mortgage Banker	- Originates and funds mortgages using a corporate line of credit - Does not take deposits from consumers - Sells all loans into secondary mortgage market	- Quicken Loans	Direct Lender Alternative to using a bank	May have limited resources May not offer better mortgage terms
Credit Union	- Takes deposits from customers and loans money to borrowers - Typically not for profit institutions which may allow them to offer more competitive mortgage rates - You must be a member to obtain a mortgage from a credit union - Membership eligibility may require employment with a specific organization (active military, etc.) - Typically sells loans into secondary mortgage market	- Navy Federal Credit Union - State Employees Credit Union	Potentially lower rates and fees because of not for profit status	May need to meet eligibility requirement
Private Investors	- Individual investors - Typically require low Loan-to-Value ratios and charge higher interest rates - Typically used by individuals with poor credit histories	- Individual investors	Access to mortgage when no other options exist	More expensive type of mortgage financing

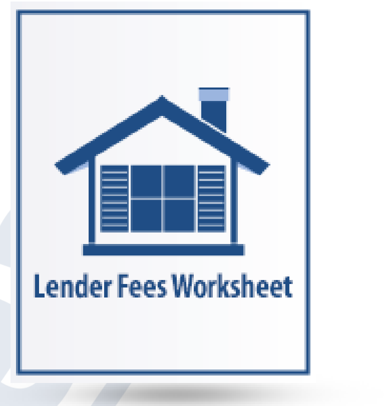
Applying for the Mortgage

- All lenders use the same standard mortgage application form – referred to in the industry as a Form 1003
- The mortgage application contains a lot of questions about a borrower's income, assets, debt and employment history
- The good news is that almost all lenders provide an online mortgage application which streamlines the process and allows you to submit the application from the comfort of your own home
- Just because you submit a mortgage application to a lender does not mean you must select that lender and work with them to obtain your mortgage



The Lender Fees Worksheet

- When you are applying for a mortgage be sure to ask the lender for the Lender Fees Worksheet
    - By law, the lender is not required to provide you with a Lender Fees Worksheet, but will likely provide it to you if you ask
- The Lender Fees Worksheet provides a detailed breakdown of all the costs and expenses associated with a mortgage including fees charged by lenders and other third parties
- The Lender Fees Worksheet also includes estimated total monthly housing expense including your mortgage payment, property taxes and homeowner's insurance
- You can use the Lender Fees Worksheet to perform a more detailed review of mortgage closing costs and to compare costs across different lender proposals
- You can use this information to select the mortgage that offers the best terms with the lowest costs and fees
- You can use this information to select the mortgage that offers the best terms with the lowest costs and fees



Comparing Mortgage Proposals and Picking the Right One for You

- In comparing proposals, we recommend that you focus on three key items that have the most impact on your up-front and long-term mortgage costs. We outline the three items below and tell you where to find them on the Good Faith Estimate (GFE)
  - According to federal law, a lender must provide a Good Faith Estimate (GFE) of the key terms of a mortgage including interest rate and closing costs, at the time the borrower submits a loan application. The GFE is a standard document that will be the same across all lenders. The figures may change as proposals vary across lenders, but the form itself will remain the same – this allows you to more easily compare proposals from various lenders
- Instead of providing a Good Faith Estimate, some lenders may provide you with a verbal or written summary of estimated mortgage costs and terms. You can also use this estimated information to compare mortgage proposals
- Now that you know the three key mortgage terms to focus on, you can input this information into our MORTGAGE COMPARISON CALCULATOR to compare mortgage proposals and select the one that is right for you

Key mortgage costs items	
1) Interest Rate GFE	– One of the first items on the GFE and easy to compare across lenders because it is a single figure
2) Adjusted origination charges GFE	– Lender fees and costs – Found in box A at the top of page two of the GFE – More challenging to compare because it can contain numerous items such as points, processing and numerous other fees – The most important component of adjusted origination charges are origination points – A point is an up-front fee that represents 1% of the mortgage amount – You may also decide to pay a discount point or points to lower your interest rate – The more discount points you decide to pay, the lower your interest rate should be – We address the trade-off between points and interest rate on the next page but initially you should focus on adjusted origination charges in making a lender selection
3) Charges for All Other Settlement Services GFE	– This figure includes the all non-lender fees and costs – Found in item B on the bottom of page one of the GFE

Processing and Closing your Mortgage

- Processing and closing your mortgage involves a lot of steps and paperwork
  - The table below outlines the key milestones in the mortgage closing process to help you stay on track

	Mortgage Closing Key Milestones
1	Finalize mortgage application
2	Lock your mortgage
3	Closing agent opens escrow
4	Order title report
5	Order and review the appraisal
6	Receive lender underwriting approval
7	Closing agent orders loan documents
8	Review the HUD-1
9	Record documents and fund mortgage
10	Closing!

Understanding the HUD-1

- Federal law requires the closing agent (escrow company or attorney) to issue the borrower an estimated HUD-1 Statement at least one day prior to the closing of the loan
- Typically the borrower receives the estimated HUD-1 when he or she signs loan documents three-to-four days prior to closing
- The HUD-1 is a standardized form that lists the final, actual terms and costs of your mortgage, including your mortgage note interest rate, points and all one-time fees
- The borrower should use the estimated and final HUD-1 statements to verify that he or she is receiving a mortgage at the terms agreed to at the start of the process
- The first two pages of the HUD-1 outline the transaction terms and settlement (closing) costs while the third page compares these items to the Good Faith Estimate (GFE) that the lender should have provided you at the beginning of the mortgage process
    - If the figures and information in the HUD-1 and GFE match or are relatively close, then you are all set to close your mortgage
    - If there are meaningful discrepancies between the HUD-1 and GFE and the final mortgage terms and costs have changed or increased significantly, this could be a sign that you are not getting the mortgage you thought you were and that you are potentially getting ripped off
- The key items to review when comparing the HUD-1 and GFE are: interest rate and settlement costs (also known as closing costs) such as the appraisal and escrow fees and title insurance costs
- If there are significant differences in any of these items then ask the lender for an explanation
- If you are not satisfied with the explanation then you should cancel the mortgage. You can cancel your mortgage at any time before it closes and then you are free to work with a different lender
- Although you may be out non-refundable costs such as your appraisal fee and certain lender fees, canceling a bad mortgage will save you much more money over the life of the mortgage
- One way to avoid potential negative surprises as you move toward closing your mortgage is to lock your mortgage. That way, all key terms and costs are agreed to by you and the lender at the start of the process and remain unchanged through the closing of your mortgage
- Check out the HUD-1 example to better understand how you can use it to your advantage during the mortgage process

Closing!

- Now that your mortgage has closed it's time to celebrate!!!
- Before you pop the champagne there are a couple of last minute items to remember
- The first point is that you should always review the final HUD-1, which is issued after documents are recorded
- Although it is very rare, if you do find a mistake in the final HUD-1, such as a miscalculation, then you should bring it to the attention of the closing agent immediately
- Another important item to highlight is the first payment letter, which notes your monthly mortgage payment amount and when the payment is due
- The last thing you want to do is pay a late fee because your were late with your first mortgage payment
- You have completed the FREEandCLEAR First-Time Home Buyer Basics Guide! Congratulations!!!