



# NEW HOME MORTGAGE HANDBOOK

## A COMPLETE GUIDE TO FINANCING A NEW HOME

### FIRST, GET PRE-APPROVED

If you know the purchase price range you desire, you should consider being pre-approved. By doing this first, you'll save yourself time, energy and frustration. It's simple and easy with the technology offered by our automated underwriting systems.

These systems allow your mortgage banker to actually input your financial data, receive a credit report and download the file straight to the investor, Fannie Mae, or Freddie Mac for a 100% full credit approval. What does a pre-approval do for you?

- **Gives you peace of mind** – Pre-approval gives you the peace of mind knowing that you should be able to close for the loan amount you want. Many people try to get approval after they write a contract and put down earnest money. A pre-approval gives you confidence your loan is on track before you put your money at risk.
- **Shows you what your downpayment will be** – You will know exactly how much money you will need for downpayment and closing costs.
- **Lets you know what your monthly payment will be** – You'll have a complete idea of what your monthly principal, interest, taxes, and insurance (PITI) payment will be.

- **Identifies the loan programs you qualify for** – With the wide variety of loan programs available, it is important to know which types you qualify for and which will best suit your needs.

At this point, the lender can also help you determine alternatives and strategies that could help you buy the home of your dreams. Some examples include:

- **Special First-Time Homebuyer Programs** – With low downpayment requirements
- **Down Payment Assistance Programs** – There are many programs available that assist Borrowers who have little or no savings to put down towards the purchase of a home.
- **Debt Consolidation Counseling** – By restructuring your debts, you may be able to lower your total monthly obligations.

### OBTAINING A PRE-APPROVED CREDIT COMMITMENT

In order to obtain a pre-approval, we will need some basic information and a few moments of your time – It's that easy!



## CHOOSE THE BEST LENDER

When you buy a home, one of your primary concerns will be developing a relationship with a lender you feel comfortable with. **Calling around and asking for interest rate quotes is not the best way to select a lender.** Why? Because:

1. Unscrupulous lenders will often use “bait and switch” tactics, or not mention the rate they quote may include additional fees.
2. The lender knows nothing about your situation or needs, so the interest rate they quote may or may not be the best program for you.

### SOME QUESTIONS TO ASK

Competitive rates and fees are important, but when you consider the fact that most lenders get their money from the same source (and therefore have essentially the same rates to offer), you must look at some other factors before choosing a lender. You need a lender who works with you and your sales agent as a team with the same goal – to get your loan closed in a timely and professional manner at a great price. Some of the questions to ask include:

#### 1. Is the company a mortgage bank or direct lender?

A mortgage banker is a lender who not only originates their own loans, but also underwrites, approves, funds, and sets up the servicing, i.e. where your monthly payments are sent. This type of lender has complete control over your file from start to finish, but may be limited in the types of programs they can offer. Also, because they perform most of the loan functions “in-house”, the rates are generally lower. From a consumers point of view, this type of lender will offer you the most complete one stop shop for most of all your financing needs and offer the best price, but may not offer a wide array of different products.

#### 2. Is the company a mortgage brokerage?

A mortgage broker originates loans but does not actually lend the money. They submit the package to one of many outside sources that underwrites and funds the loan. A mortgage broker does not have control of your loan, but can generally offer a much wider choice of loan programs.

American National Bank operates as both a mortgage bank and a mortgage brokerage, which gives us the unique ability to provide you the best of both scenarios: best prices and the greatest selection of loan programs to meet your needs.

#### 3. How long has the company been in business?

Lenders and loan officers come and go. Make sure that the company you are dealing with has a strong mortgage lending background. Also, make sure your loan officer is credible with the experience necessary to meet your needs. Inexperienced Loan Officers often over commit, and may not know all of the intricacies of the different loan programs. At American National Bank, our training programs and services offered are an excellent reflection of our commitment to you, the consumer. We want to be your Lender for Life.

#### 4. Does the company lock-in their interest rates? And for how long?

Quality lenders will give a written confirmation when you lock in a mortgage loan rate. In addition, if you work with American National Bank we offer many different rate lock options, i.e. 30, 45, 60, 90 days and may be extended for newly constructed homes for up 360 days!.

### PROVIDING THE BEST CHOICE

Some lenders are just mortgage bankers (direct lenders) or mortgage brokers. As both a mortgage banker and broker, American National Bank **is a ONE-STOP source for all of your financing needs and delivering a level of service that builds lasting relationships.**



## GETTING READY FOR YOUR LOAN APPLICATION

At American National Bank, you will find the process to be easy and simplified. Some of the information we need to know is listed below. When you have all this information at your finger tips during the interview, the process literally takes minutes, not hours.

### 1. Your Residence History. *We will need:*

- Your previous addresses for the past 2 years
- The length of time you have lived in each place
- If you currently rent, your landlord's name and address (for the last 12 months)

### 2. Your Employment History. *We will need to know:*

- The names and addresses for all your employers for the past 2 years
- The dates you worked at each place of employment
- If there have been any gaps in your employment (2 or more months) and why

### 3. All Outstanding Loans and Credit Cards. We will need your authority to run your credit report

### 4. Savings, Checking, or Investment Accounts.

*For each account, we will need:*

- The name of each financial institution
- The type of account
- The current balance or value

### 5. Real Estate Currently Owned. *For each property, we will need to know:*

- The property address
- The estimated market value
- The outstanding loan balance(s)
- The amount of your monthly payment
- The amount of your monthly rental income (if applicable)

### 6. Personal Property Owned: *We will need to know:*

- The approximate net cash value of your life insurance
- The make, year and value of your automobiles
- The approximate value of your furniture or other personal property

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## THE AUTOMATED LOAN PROCESS

### STEP 1: The Application

After completion of the application (may be completed by phone), the information is downloaded into the automated underwriting system for a conditional credit commitment.

### STEP 2: The Conditions of Approval

Within 24 hours after the commitment is received, an appointment will be made to thoroughly discuss and go over the terms and conditions of your approval. At this point, your American National Bank Loan Officer will request the items required by the automated underwriting system to complete the documentation of your file.

### STEP 3: Gathering Supporting Documentation

The investor will want documentation supporting the income and assets numbers stated on the loan application. Our automated underwriting system should tell us exactly

what documentation will be needed for final approval. The documentation requirements vary Borrower by Borrower and by the type of loan you are seeking. We will assist in obtaining any information that you are not able to locate or provide. In addition, an appraisal will be ordered along with title work from the sales agent or the builder once a final purchase price has been obtained.

### Step 4: Locking Your Loan into a Guaranteed Interest Rate

Rates go up and down everyday, and at one point we need to "lock-in" your rate. You may lock your rate when we receive your full application up until 3 days before you close your loan. When we lock your rate, the investor is committing to us that they honor a certain interest rate for a set number of days. The lock period can range from 15 days to 90 days, however we must close your loan within the chosen time period or risk a higher interest rate.



#### **Automated Loan Process (cont.)**

Generally the longer the lock period, the higher the interest rate, so it is beneficial to lock for fewer days, but we need to ensure we have enough time to adequately process, underwrite and close your loan.

The investor actually will set aside funds specifically for your loan. Because they are making a commitment to you, they ask that you in turn agree to make a commitment to them. Once a rate has been locked, you will not receive a lower rate, regardless of what happens on the bond market. It is your responsibility as a Borrower to decide when to lock your loan. Please feel free to call your Loan Officer every day to see if rates are going up or down, but the decision when to lock is yours.

#### **STEP 5: Loan Submission**

Once all the necessary documentation is in, we will then submit your file for final approval. This is where all of the documentation that you provided, along with a real estate appraisal are carefully reconciled by an underwriter. The Underwriter reviews the documentation to ensure that the stated income and assets are supported by proper documentation. The Underwriter also ensures that your loan fits within the chosen loan program parameters. For example, some loan programs require that the Borrower

have at least a 620 credit score, while other programs require a credit score of at least 700. The Underwriter ensures that you qualify for the chosen loan program.

#### **STEP 6: Conditions**

It is almost a certainty that the Underwriter will request some additional information. Please do not get discouraged by this, as it is normal! Often times we can secure any additional items that may be required for the Underwriter, but sometimes we may need your assistance. Please be prepared to help us secure any additional information that may be required by the Underwriter.

#### **STEP 7: Loan Approval**

The loan approval is the beginning of the closing process. After our underwriter has signed off on the loan, the approval is formally communicated to all parties involved and a closing date is set depending on when the property is scheduled to close or be completed.

#### **STEP 8: Documents are Drawn**

Once a closing date is scheduled, have the right to receive your final settlement figures one business day prior to the closing. At this point, we will begin to draw your closing documents and work through the logistics of closing your loan with the Title Company and Seller of the property.

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## **LOAN PROGRAM HIGHLIGHTS**

American National Bank offers borrowers over 300 different mortgage programs. Below is a brief explanation of some of the most commonly used loan programs or mortgage loan features.

#### **ARM (ADJUSTABLE RATE MORTGAGE)**

A loan that has an interest rate that increases or decreases at specified times during the life of the loan. The change in the interest rate is tied to a financial index.

#### **INTEREST ONLY LOAN PROGRAMS**

An interest only loan can provide a low monthly payment that could allow you to qualify for more home than you originally thought possible. The interest only feature is fixed for a specified amount of time, i.e. 6 mo, 1, 3, 5, 7 or 10 years. Rates and terms of these types of loan programs will vary depending on the amount of time you desire to fix the interest only option for.

#### **100% OR 80/20 LOAN PROGRAMS**

No down payment or no Mortgage Insurance loan programs are becoming more popular. Investors consider the risk higher on 100% financing and normally the interest rates quoted on these programs will tend to be higher than if you were putting 5% or 10% down.

#### **BALLOON LOAN**

A fixed rate loan that is amortized over a 30-year period but becomes due and payable at the end of a certain term (5,6,7, or 10 years). May be extendable or may rollover into another type of loan.

#### **JUMBO and SUPER JUMBO LOANS**

These are loans amounts from \$370,000 – over \$5,000,000



#### Loan Program Highlights (cont.)

##### **TEMPORARY BUYDOWN**

A fixed rate or ARM loan where the interest rate and payment are reduced for a specific period of time by paying the interest up front to subsidize the lower payment.

##### **FLA and VA LOANS**

FLA loans are available as a fixed rate, ARM or a Temporary Buydown. They are loans that are insured by the Federal Housing Administration and offer low down payments and higher qualifying ratios.

##### **FIXED RATE LOAN**

A loan which has an interest rate that remains constant throughout the life of the loan.

##### **VA LOAN**

A no-down payment loan available to eligible veterans. VA loans are insured by the Veteran's Administration.

##### **LOCK and SHOP**

you may actually lock into an interest rate prior to locating a home to buy. The future of interest rates are uncertain and with Lock and Shop, you are able to secure a rate today, while looking for your dream home. Ask us for more details.

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## **CLOSING COSTS**

Below is an overview of the types of closing costs you may incur on your loan. Some are one-time fees while others reoccur over the life of the loan. When you apply for your loan at American National Bank, you will receive a Good Faith Estimate of Settlement Charges within 3 business days that will identify each cost category for your mortgage loan.

##### **APPRAISAL FEE**

This is a one-time fee that pays for an "appraisal," (A statement of property value for the lender.)

##### **CREDIT REPORT FEE**

This one-time fee covers the cost of the credit report, which is run by an independent credit reporting agency.

##### **DOCUMENT PREPARATION FEE**

There may be a separate, one-time fee to cover the cost of preparing final legal papers, such as a mortgage, deed of trust, note or deed.

##### **LOAN DISCOUNT**

Often called "points," a loan discount is a one-time charge used to adjust the yield on the loan to what market conditions demand. One point is equal to 1% of the loan amount.

##### **LOAN ORIGATION FEE**

This fee covers the lender's administrative costs in processing the loan. A one-time fee often expressed as 1% of the loan amount.

##### **MISCELLANEOUS TITLE CHARGES**

The title company may charge fees for a title search, title examination, document preparation, notary fees, recording fees and a settlement or closing fee. These are all one-time charges.

##### **MORTGAGE INSURANCE**

Depending on the amount of your down payment, you may be required to pay a monthly fee for mortgage insurance (which protects the lender against loss due to foreclosure). Many borrower's can waive the mortgage insurance by placing a 2nd mortgage behind the new first mortgage, commonly known as a piggy back loan, i.e. an 80% first mortgage, 20%, 15% or 10% second.



#### **Closing Costs (cont.)**

##### **PRE-PAID INTEREST**

Depending on the time of the month your loan closes, this charge may vary from a full month's interest to just a few days. If your loan closes at the beginning of the month, you will probably have to pay the maximum amount. If your loan closes at the end of the month, you will only have to pay a few days interest, however you may not need to make a mortgage payment until the following month. For example, if your loan closes June 15th, you will need to pay interest for the remaining days in June (the 16th through the 30th), however you will not typically need to make a mortgage payment until August 1st.

##### **TAXES AND HAZARD INSURANCE**

You will need to pay an entire year's hazard insurance premium up front. In addition, you may be required to put a certain amount for taxes and insurance into a special reserve account held by the lender, commonly known as your escrow or impounds account and are reoccurring in your monthly payment.

##### **TITLE INSURANCE FEES**

There are two title policies – a lender's title policy (which protects the lender against loss due to defects on title) and a buyer's title policy (which protects the buyer).



## **THE COMPONENTS OF A MORTGAGE PAYMENT**

Your monthly mortgage payment is made up of several components. This housing expense is commonly referred to as "PITI" or Principal, Interest, Taxes, and Insurance. MI (see below) may also make up a portion of your total payment.

### **1. PRINCIPAL**

The original balance of money loaned, excluding interest. Also, the remaining balance of a loan, excluding interest. The interest is calculated on the principal.

### **2. INTEREST**

The charge for the use (loan) of money.

### **3. TAXES**

The county assessor will charge property tax based upon the value of your property. Taxes are paid annually; they can be paid in two installments or in one yearly payment. Most investors will require that you "escrow" your taxes and insurance. An escrow account is like a savings account they will set up for you. Every month the investor will require you to pay 1/12th your estimated taxes to them, and at the end of the year they will make the tax payment for you.

### **4. HAZARD INSURANCE**

A contract that pays for loss on a home from certain hazards, including fire. You obtain homeowner's insurance from your own insurance agent. The standard policy pays replacement costs, minus depreciation based upon actual cash value. Talk to your insurance agent about the different types of insurance available. Hazard insurance may also be escrowed.

### **5. MI (MORTGAGE INSURANCE)**

Depending on the amount of your down payment, you may be required to have MI. (unless you opt for a 100% or 80/20 type of product). Because loans with small down payments involve more risk for the lender, they need protection to cover losses of collection. Mortgage Insurance helps cover the lender's losses in the event of a foreclosure. Since this insurance is available, lenders can offer loans with lower down payments.

MI requires an up front fee which is payable as part of your closing costs and it is also required to be paid monthly with your payment. The cost of MI varies according to the amount of your down payment.

FLA also charges a fee for mortgage insurance and it is called MIP or Mortgage Insurance Premium. There is both an up front fee (which may be financed) and a monthly charge. VA also charges a funding fee, which may also be financed.



## **WHAT DOES A TITLE COMPANY DO?**

As a general rule, the title company provides the following services:

1. Guarantees clear title to your property. In other words, they make sure the person who is selling you the property actually owns it and that nobody else has claims against the property.
2. Drafts a Warranty Deed and /or other necessary documentation
3. Pays off existing loans when necessary
4. Adjusts taxes and insurance between the buyer and seller
5. Computes interest on loans
6. Has the buyer and seller sign the documents
7. Records the appropriate documents
8. Disburses the documents and money to each party involved

The title company conducts a title search, which is a history of who has owned the property and details all prior transactions, existing liens and encumbrances or other factors that affect the title. You will receive a Preliminary Title Report on the property which covers all of these items.

The title company also provides title insurance, which protects you and the lender. There are two types of title policies:

### **1. THE LENDER'S POLICY**

Protects the lender against loss due to unknown title defects or other matters that affect title and are not known at the time of sale. This policy is mandatory.

### **2. THE MORTGAGOR'S OR BUYER'S POLICY**

Protects the buyer from flaws in the title. This policy is optional but is highly recommended.