SHOPPING FOR A MORTGAGE

PURDUE FEDERAL
CREDIT UNION

A 2018 GUIDE

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SO YOU WANT TO BUY A HOME?

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You can picture it now… a fenced yard for your pup, a big kitchen to fill with the smell of your grandma's cookies, and a master bedroom like never before.

You start to do some online shopping, and after scrolling through so many houses your eyes start to hurt, you find the perfect home for sale.

Then, you see the listing price, and you're jolted back to reality.
You know you're financially stable, you know you're ready to be a homeowner, and you know you'll need to get a mortgage, but you have no idea where to start.

We know it's confusing, and we're here to help.

The purpose of this guide is to demystify the mortgage process. We'll walk you through the ins and outs of selecting, applying for, and obtaining a mortgage. We'll make sure you know what to expect throughout each stage of the process so that nothing catches you by surprise.

SO YOU WANT TO BUY A HOME?

And don't worry, we won't be those people who use big words when explaining things, which only serves to further confuse you. This guide is written by regular people, for regular people.

But, before we get into the thick of it, there's a few things you should consider:

- This is YOUR borrower journey, and we're here to provide you with a customized 5-star experience. As with all other purchases, voice your concerns, your desires, and your needs. Don't be afraid to speak up to your lender if something doesn't make sense or doesn't add up!
- Remember when your teachers used to nag you about using your planner and being organized? Well, the same applies to the mortgage process. Getting a head start on gathering necessary forms (such as pay stubs, tax documents, and bank statements) is a good way to prepare. Anything you can do to plan ahead will save you time and minimize frustration.
- A mortgage is a big commitment. Take time to fully consider this obligation so you don't have doubts later on. Make sure you're ready (both financially and mentally) to sign on the dotted line.

THE M WORD

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You may know the general idea behind a mortgage, but did you know there are not only different types of mortgages, but also different types of mortgage lenders? One type of mortgage may be better-suited for your situation than the kind your friend told you to get, or the one you read about online. Let's cover the need-to-know info on mortgage basics.

CHARACTERISTICS OF A MORTAGE

Just like shoes, there is no one-size fits all when it comes to mortgages. The following characteristics are considered, and ultimately decided upon, by you and your lender based on your unique situation:

Interest Rate

This is the rate that you (the borrower) are charged by the lender for using their money. Interest rates are typically calculated annually, and expressed as a percentage of the total funds borrowed. The lender will apply the interest rate to the total unpaid portion of your loan.

Lower Interest Rate = Better for Borrower

THE M WORD

Characteristics of a Mortgage

Amortization

This is a fancy word for the payment schedule over the lifespan of a loan, or how many years you will be making payments until your loan balance is zero. Typically amortization schedules are 10, 15, 20, or 30 years.

Longer Amortization = Lower Monthly Payment

Payment

This refers to how much you pay towards your loan balance, and is directly related to the amortization period. If you want to pay the loan balance off quicker, you make higher monthly payments.

Frequency

This refers to how often you make payments. Almost all mortgages are based on monthly payments.

TYPES OF MORTGAGE LENDERS

When it comes to types of mortgage lenders, you've got options. More on how to choose the right lender for you in the next chapter.

Types of Mortgage Lenders

Banks or Credit Unions

These financial institutions make the vast majority of mortgages in the US. The bank or the credit union is the one lending the money, which comes, in part, from the amounts their customers have on deposit in savings accounts, certificates of deposits, and money market accounts, so there is no third party involved. Banks and credit unions often provide **stability**, as they are the institutions that develop long-term relationships with customers through multiple financial offerings.

Mortgage Broker

Think of a broker like a middleman (or woman) that works with a variety of lenders to find loans for clients. They don't do the actual lending; they match a willing borrower with a willing lender. This service comes with a fee, as mortgage brokers usually charge about 1-2% of the loan amount as a form of commission. Mortgage brokers often provide **variety**.

TYPES OF MORTGAGES

Not only are there different types of mortgage lenders (as if that wasn't confusing enough), there are also different types of mortgages. Let's take a look at the different types of mortgages so you get a better idea of what may work best for you.

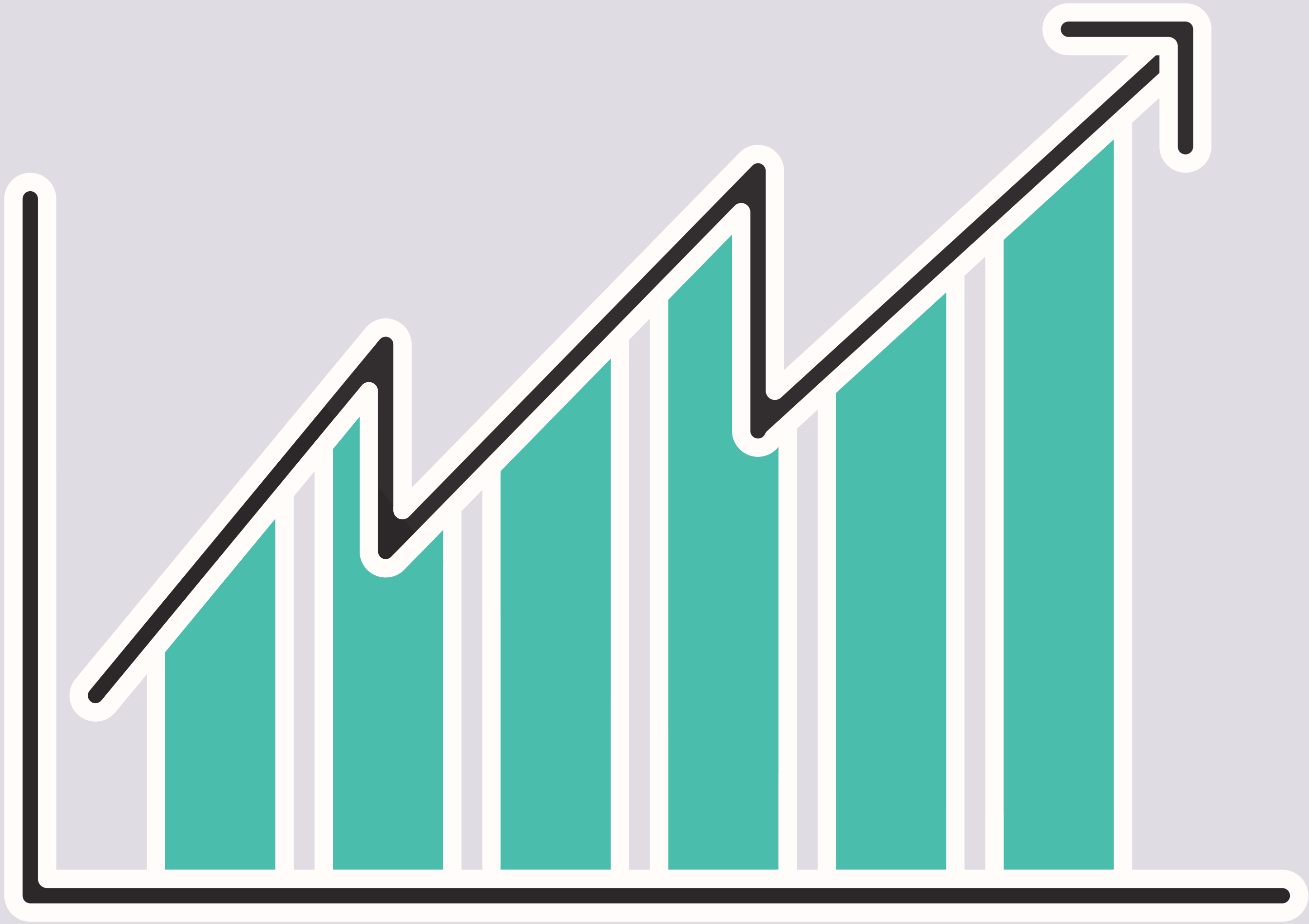
Types of Mortgages

Fixed Rate Mortgage

With a fixed rate mortgage, the interest rate never changes no matter what happens in the market place. Fixed rate mortgages provide **security** to the borrower.

Adjustable Rate Mortgage

An Adjustable Rate Mortgage (also known as an ARM) means that the interest rate adjusts throughout the life of the mortgage. The interest rate is fixed for a certain duration (generally about 3-7 years), sometimes at a below-average interest rate. After the fixed period, the interest rate adjusts based upon current rates. ARMs are generally more of a **risk** because the rate may go up OR down at the end of the fixed period, and continue to adjust over the life of the loan. However, if you don't plan to be in the house for longer than that fixed term, then an ARM could save you from a higher interest rate.



SHOP 'TIL YOU DROP

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According to the Consumer Financial Protection Bureau, or CFPB (the government organization that regulates the mortgage industry), almost half of homebuyers don't compare lenders when shopping for a mortgage. That's like going to buy a car and not comparing prices or checking Kelley Blue Book before you commit.

A mortgage is (most likely) one of your biggest financial commitments to date, so be sure to give it the time and research it deserves. After all, a lower interest rate could save you thousands in the long run.

Although interest rates are primarily out of your control, one option to consider is paying points on your mortgage. Paying mortgage points means paying more up front to get a reduced interest rate. Often referred to as "buying down the rate," this option is enticing for borrowers who a) have additional cash to use at closing and b) plan to own their home for a long period of time. A point is equal to one percent of the principal amount of your mortgage. For example, if you get a mortgage for $100,000, one point means you pay $1,000 to the lender. The amount your interest rate is reduced per each point varies from lender to lender, so be sure to ask for more details from each lender you are considering. In addition, to help you determine if buying mortgage points makes sense for your situation, check out this mortgage point calculator from NerdWallet.

SHOP 'TIL YOU DROP

In addition to interest rates, different lenders have different fees and special offers. Be sure to review all fees provided by each lender you are considering. There are some fees that vary by lender, while others are more or less the same fixed costs no matter who you choose to borrow from. The chart below shows the major fees that you'll need to consider.

FIXED COSTS	VARIABLE COSTS BASED ON LENDER
Appraisal	Interest Rate
Flood Certification	Discount Points (if applicable)
Title Insurance	Underwriting Fee
Closing/Settlement Fee	Origination Fee
Transfer Taxes	
Homeowner's Insurance	
Credit Report Fee	

In addition to the fees shown above, there are other minor fees that can add up quickly. Every lender is required to provide you with a line-by-line breakdown of each of these costs so that, on average, you can know what to expect should you choose to originate with them. The next few pages contain an example of a fees worksheet.

Loan Details

Loan Amount:	$200,000.00	**LTV:**	80.000%
Purchase Price:	$250,000.00		
Loan Program:	30 Year Fixed (FNMA)		
Interest Rate:	4.125%	**APR:**	4.204%

Summary of Charges

Discount Points	$0.00	0.000%
Origination Fee	$0.00	0.000%
Appraisal Fee*	$400.00	
Credit Report Fee*	$20.00	
Title - Lenders Title Insurance	$361.10	
Recording Fee	$175.00	
Flood Cert Fee	$18.00	
Underwriting Fee	$150.00	
Doc Prep Fee (Lender)	$50.00	
Processing Fee	$450.00	
Application Fee*	$375.00	
Title - Settlement Closing Fee	$625.00	
Tax Service Fee	$82.00	
State Grantor Tax (Ernst)	$10.00	
State Grantee Tax (Ernst)	$10.00	
State Land Bank Tax (Ernst)	$10.00	
State Sales Disclosure Form Fee (Ernst)	$10.00	
State Mortgage Intangible Tax (Ernst)	$10.00	
State Mortgage Recordation Tax (Ernst)	$4.00	
State Mortgage Conservation Fund (Ernst)	$2.00	
State Deed Intangible Tax (Ernst)	$10.00	
State Deed Conservation Fund (Ernst)	$10.00	
State Auditor Transfer Fee (Ernst)	$10.00	
State Mortgage Tax (Ernst)	$10.00	
State Deed Recordation Tax (Ernst)	$10.00	
State Deed Tax (Ernst)	$10.00	
County Deed Tax (Ernst)	$10.00	

Summary of Charges: $2,037.10

*Items paid outside of closing in the amount of $795.00 or paid by Lender are not included in the total closing costs.

Prepaids & Reserves			
Hazard Insurance Premium (Monthly)	2 Months	@$166.66	$333.32
Hazard Insurance (1st Year)		@$2,000.00	$2,000.00
Property Taxes (Monthly)	2 Months	@$207.50	$415.00
Interim Interest	5 Days	@$22.60	$113.00
		Total Prepaids & Reserves:	$2,861.32

Total Closing Costs, Prepaids, and Reserves: $4,898.42

Monthly Housing Costs:	
P & I	$969.30
Hazard Insurance Premium (Monthly)	$166.66
Property Taxes (Monthly)	$207.50
Total Monthly Housing:	$1,343.46

Estimated Funds to Close: Purchase	
Price	$250,000.00
- Loan Amount	$200,000.00
= Down Payment	$50,000.00
+ Total Charges and Prepaids	$4,898.42
= Funds to Close	$54,898.42

SHOP 'TIL YOU DROP

Insider Tip

Taking out a mortgage from the institution where you currently bank is often a good option to consider. They may be able to offer special discounts and rates based on your current status with them. As an added bonus, they already have access to much of the information you'll need to provide when applying for a loan, which will save you a lot of time and frustration.

QUESTIONS TO ASK

Shopping for a mortgage lender extends beyond comparing rates and fees. Like shopping for airline tickets, you may choose one flight over another not because it's the cheapest, but because you know you'll get the best level of service and have a seamless travel experience. The same logic applies to the mortgage process.

Here's a list of questions to ask each lender to help you judge what type of experience they'll deliver:

SHOP 'TIL YOU DROP

Do you have a secure method of communication that ensures my personal and financial information remains in the right hands?
It seems like there's a news story every day about wire fraud or cyber security within the mortgage industry, resulting in individuals losing their life savings during closing. Take steps now to ensure this doesn't happen to you! Ask your lender what actions they'll take to ensure your private information and funds are secure. Do they use email to submit private documents? How do they communicate with and transfer information to third-party providers? If they use email for any communication or data transfer, your personal data is absolutely at risk and you would do well to look elsewhere.

How will I be notified of the status of my application?
If you are interested in transparency into the status of your mortgage throughout the process, be sure to ask how you will be kept in the loop. Some lenders have systems that allow you to log-in and receive real-time updates about the status of your application as it moves through the process. If this is important to you, be sure to seek out a lender who has this option available.

SHOP 'TIL YOU DROP

Questions to Ask

How long, on average, will it take to process my loan application?
Although length of processing varies depending on the circumstance, it's good to get an average from each lender about how long it will take them to move your application from start to finish. Depending on whether the lender uses manual paper processes or an automated workflow, there could be quite a discrepancy in time. Loans typically close within 30-60 days, and in addition to the lender's efficiency, your efficiency as the borrower (how quickly you provide necessary documentation, your responsiveness) also impacts this time frame.

Who will be my main point of contact and how do I get in touch with them?
Due to the nature of a home purchase, the loan process can sometimes be emotional or stressful. Because of this, it's important to know who you can contact should last-minute questions arise.

IT'S GO TIME

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So, you've got the mortgage basics down, you've selected a lender, and now it's time to talk about the process of going from loan application to closing, also known as the process that gets you into your dream home! Here's a breakdown of the key players you'll be working with throughout this process.

ROLES WITHIN A LENDING INSTITUTION

Loan Officer

LO for short, this is the person who will guide you through the process from start to finish by giving you an overview of what needs to be done, providing a timetable, and reviewing all costs associated with your mortgage. They'll help you determine what type of mortgage matches your needs, as well as help you through the application process. Think of the Loan Officer as your **coach**.

Loan Processor

A loan processor works in your loan officer's organization and is responsible for collecting all necessary documentation and verification to get your application ready for approval. This includes employment, assets, and income, (more on required documents to come). They ensure you've got all necessary documents, all numbers are calculated accurately, and the application is compiled correctly. They also coordinate with third-party providers, such as insurance and title companies, to verify all quotes and information. Think of the Loan Processor as your **trainer** – making sure you are game ready.

Mortgage Underwriter

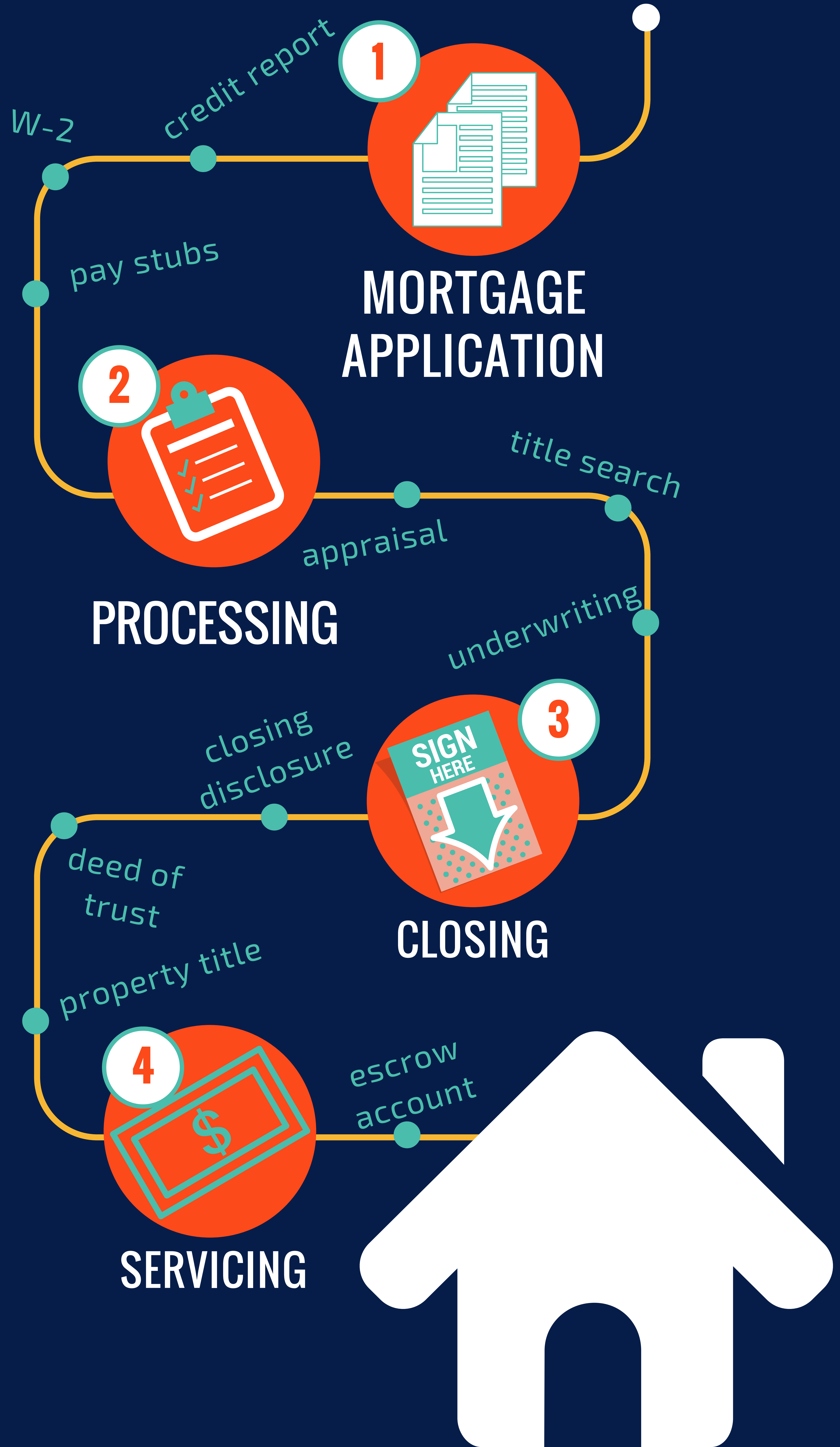
The underwriter is the decision maker on the loan; they are the ones that review all information and ultimately make the call to approve or deny. Every lending organization has different criteria they use to make loan decisions. The decision they make on your loan will be thoroughly explained to you by your loan officer. Think of the Mortgage Underwriter as the **referree**.

Closer

When a loan has gone through all other steps in the process, the closing representative is responsible for verifying that all documents are ready, meaning that they are signed and that nothing has changed since both parties (the borrower and the lender) saw them last. Think of the Closer as your **offensive coordinator** – making sure all players know the play to be run.

You've got your coach, trainer, referee, and offensive coordinator on deck. Here are the various steps of the loan lifecycle that you and your team will navigate.

The Loan LIFE CYCLE



IT'S GO TIME

THE LOAN LIFE CYCLE

Mortgage Application

The application is the first formal step you'll take to get your mortgage. No matter which lender you choose or where you apply, you'll most likely fill out the same mortgage application. The application consists of 10 different sections, which your loan officer will be able to walk you through step-by-step. Before you start your application, it's helpful to be aware of what information and documentation you'll need to provide so that you can prepare accordingly. Here are some of the items that may take a bit of digging or researching:

Necessary Information

- Employment history for the past 2 years
- Residential history for the past 2 years
- Outstanding balance of any current debt (such as student loans or car loans)
- Social Security number

Key Documents

- Pay stubs from the past 30 days
- W-2s for the last 2 years
- Bank statements for all financial accounts

IT'S GO TIME

As a part of the application process, the lender will also run your credit report, which is basically a report card showing how you manage your finances. It considers things like credit card balances, bill payment history, and number of credit accounts to generate your overall credit score, which will impact your lender's decision about if they will lend to you, and at what interest rate. At this point in the process you are:

Thinking

Why do they need so much information?
What did my LO say is the next step?
Does my credit score impact my interest rate?

> Your credit score impacts your lender's decision on your application, and also influences the interest rate you are charged. If your credit score isn't exactly where you want it to be, don't panic! Ask your lender about actions you can take to improve your score in the future.

Feeling

Confused. Overwhelmed.

Doing

Filling out your application, gathering all necessary documentation. Asking your employer how your employment and income can be verified, and reporting your findings to your LO.

Processing

Processing puts the ball back in the lender’s court after you submit your application. This is the period of time where the lender verifies that all information you have provided on the application is accurate. This portion of the process is the lengthiest, and can take up to 3 or 4 weeks. In addition to verifying your information during this time, loan processors also verify all information related to the house you want to purchase. Processing includes the following three elements:

Appraisal

The appraisal is what determines the official value of the house. Despite what the house’s price is listed at, an appraiser uses their industry knowledge and expertise to determine its market value and judge whether this is in line with the asking price. This appraisal value impacts how much the lender will ultimately want to loan you.

Title Search

An important part of processing is the title search, when a third party performs research into the history of the house in question. This includes uncovering all previous transactions on the property, any unpaid property taxes, or any other claims that may be outstanding against the property.

IT'S GO TIME

Underwriting

This is the final stage of processing where the underwriter ultimately makes the decision to approve or deny your application. The underwriter will double-check all aspects of your application to assess the potential risk of lending you money. This could include re-pulling your credit score, confirming your income, verifying the appraisal, etc.

Thinking

Will I get approved?

What if I forgot to provide certain information?

What is taking so long?

Remember – this is why you did all of your research up front! You've established contacts that you can reach out to with questions and status updates, so don't hesitate to do so.

Feeling

Anxious. Vulnerable.

If you weren't feeling a little anxious at this point, we'd be worried! Just try to remember that as long as all information you've provided is truthful, you've got nothing to worry about.

Doing

Other than responding in a timely manner to the loan processor or loan underwriter should they need any additional information, there is not much to be done on your end in terms of your mortgage application at this stage. This is good news, because you'll be busy packing up your house in preparation for your upcoming move!

IT'S GO TIME

Closing

Hooray, you made it to closing! This is the phase where your new purchase is made official, meaning that the property title (or certificate of ownership, in simpler terms) passes from the seller to you, the buyer. Get your John Hancock ready, because this process involves signing multiple closing documents, including the Closing Disclosure, the Promissory Note, the Deed of Trust, and the Notice of Right to Cancel. For more information on the legal purpose of these forms, as well as other tips to help you prepare for closing, check out the CFPB's Guide to Closing Forms. You can also ask your Loan Officer to walk through these documents with you in advance, so that when you get to the closing table, you'll be well-informed.

Why do I have to sign my name so many times?

Is this really happening?

When can I move in?

Once you complete the closing requirements, you will officially be given the keys to your new home. Congratulations! You are now the owner of a new house, and can get started on truly making it your home!

IT'S GO TIME

Feeling

Nervous. Excited.

There's no doubt this will be one of the most exciting days of your life – it's okay to be nervous, but let yourself be excited too! You've earned it.

Doing

Reading all forms carefully before signing.

Communicating all questions that may arise.

Servicing

Servicing of your mortgage, simply put, means the process by which your loan payments are collected, your escrow account is managed, and your taxes and property insurance are paid (more on escrow accounts in a minute). Even though your loan was granted by the lender you selected, that doesn't necessarily mean that this same institution will be collecting the payments and providing you with updated statements. Check with your Loan Officer to see what the standard practice is at their institution. Some lenders transfer servicing to companies that specialize in that area. Rest assured, none of the payment terms of your mortgage will change, it's simply where these payments are sent to that could vary.

Be sure to check with your lender (or servicer) as to the preferred payment method. Some lenders like you to open a checking account with their institution so that payments can be collected directly from that account, while others accept payments in a variety of formats, including online, through the mail, or over-the-phone.

As a part of your loan servicing, you may be required to have an escrow account. An escrow account is an account (managed by an escrow agent, the servicer) that holds funds to pay off your mortgage insurance and property taxes. Your lender may require you to have an escrow account if your down payment amount was less than 20%. Typically, these types of property taxes and mortgage insurance charges are paid to the insurance companies and taxing authorities in 1 or 2 lump sums per year, but with an escrow account, you'll contribute a portion of each monthly payment for this purpose (as well as an initial deposit that is part of your closing costs). Then, when these fees are due, your escrow agent will be responsible for paying them on time with the funds you have already set aside in your escrow account. Think of your escrow account as a failsafe that lets you pay a little at a time instead of a big sum all at once.

IT'S GO TIME

Thinking

Wait... I thought I was done with all of this?

Why is my loan being sold?

What does this mean for my monthly payments?

Lending institutions may sell loans to servicers or other lenders for a variety of reasons, whether that be to free up capital to originate more loans or to make money off of the sale. This is not a reflection on you, as the borrower, or anything that should be viewed negatively. It's simply the way lending institutions continue to do business.

Feeling

Unsettled. Indifferent.

If your loan was sold to a separate lender or servicing company, proper notification and follow-up are required by law. When you receive, be sure to keep all company names and mailing addresses for future use.

Doing

Budgeting accordingly so that you can consistently make on-time payments. Reading all applicable service documents so that if your loan is sold, the transition is a seamless one.

IT'S GO TIME

No matter where you're at in the homebuying process, we hope that this guide has helped shed light on what the overall process entails, and informed your expectations moving forward. Throughout the process, try to keep the end goal in mind – homeownership. Although it may seem tedious and complicated at times, preparation and thoroughness now will reap rewards later, and ultimately, allow you to own your own home! (And let your pup have that fenced yard you, and he, have always dreamed of.)

Also remember that we, as lenders, are on your team. We want to help you through this process and make it as easy as possible for you. If there's any point throughout the process that doesn't make sense or you don't feel comfortable with, don't hesitate to speak up. We're here to help.

HAPPY HOMEBUYING!

2018