A HOMEBUYER’S GUIDE TO MORTGAGE LOANS
INTRODUCTION

Shopping for a home is exciting, but you’re likely to have some questions. And while buying a home may be one of the biggest purchases you make in your lifetime, we can help simplify the financing process. This guide can help—whether you’re in the planning stages or ready to apply for a mortgage. We look forward to offering you the tools and support you’ll need at every stage of the home financing process.

TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Prepare for the home financing experience</td>
<td>4</td>
</tr>
<tr>
<td>Ask these questions before buying a home</td>
<td>4</td>
</tr>
<tr>
<td>Build your budget</td>
<td>4</td>
</tr>
<tr>
<td>How much can I afford?</td>
<td>5</td>
</tr>
<tr>
<td>Learn about mortgages</td>
<td>6</td>
</tr>
<tr>
<td>Types of mortgages</td>
<td>7</td>
</tr>
<tr>
<td>Qualify for a mortgage</td>
<td>10</td>
</tr>
<tr>
<td>Glossary</td>
<td>13</td>
</tr>
</tbody>
</table>
The decision to buy a house is most likely the single biggest financial decision you’ll ever make, and it often brings up some vivid moments of both excitement and uncertainty. The good news: getting a mortgage doesn’t have to be difficult or confusing. With good planning, your path to homeownership can be fun and rewarding.

Ask These Questions before Buying a Home

- **How long do I plan on living in this home?**
  Will this purchase be a starter home? Will I settle down here for a longer period of time?

- **Am I expecting big changes in my personal or professional life?**
  Am I hoping to get married or start a family? Do I want to start working from home?

- **What matters most to me about location?**
  Am I likely to relocate for my job? How far am I willing to commute? Do I want to be in a particular school system? How many stores and parks would I like to have close by?

Build your Budget

Understanding what you can afford starts with taking a look at your overall finances. Fortunately, it’s not as difficult as it sounds.

Consider your living costs

When making a big change to your living situation, your monthly expenses can fluctuate, even if your mortgage payment stays the same. Consider the following:

- Utility Bills
- Maintenance & Repairs
- Transportation
- Property Taxes and Insurance
How much can I afford?
Let’s estimate what percentage of your income will be spent on your monthly mortgage payment.

Calculate the percentage of your monthly income that goes toward your total monthly mortgage payment. A mortgage lending rule of thumb is that your total monthly home payment should be at or below 28% of your total monthly income before taxes. Lenders may approve you for more or less depending on your overall financial picture.

\[
\left( \frac{\text{Principal/Interest} + \text{Taxes/Insurance} + \text{HOA Dues}}{\text{Total Monthly Income}} \right) \times 100 = \% \text{ of income going towards monthly home financing}
\]

**Estimate what is left after subtracting your monthly debt**
To determine whether you are comfortable with your total monthly mortgage payments, figure out how much of your income is left after you pay for your housing plus your other monthly debts.

<table>
<thead>
<tr>
<th>Total monthly income after taxes</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated total monthly home financing from above</td>
<td>- $</td>
</tr>
<tr>
<td>Monthly car payments(s)</td>
<td>- $</td>
</tr>
<tr>
<td>Monthly credit card payment(s)</td>
<td>- $</td>
</tr>
<tr>
<td>Other monthly payments, such as child support or alimony</td>
<td>- $</td>
</tr>
<tr>
<td>Total monthly payments minus all debt payments</td>
<td>= $</td>
</tr>
</tbody>
</table>

This money must cover expenses such as utilities, groceries, child care, health insurance, repairs, student loans and everything else. If this isn’t enough, consider options such as buying a less expensive home or paying down debts.

**Your choice**
I’m comfortable with a total mortgage housing expense of: = $
What is a mortgage?

A mortgage is a loan to help finance the purchase of a house. Typically, you repay the loan through monthly mortgage payments over a term of up to 30 years.

What does my mortgage payment include?

To fully understand the mortgage payment, you need to know the components of the typical payment and what other fees may be added, based on your down payment amount.

A mortgage payment consists of principal and interest. The principal is the amount you borrowed and have to pay back. The interest is what the lender charges for lending you the money.

In addition to principal and interest, a portion of your mortgage payment may cover:

<table>
<thead>
<tr>
<th>Homeowners Insurance</th>
<th>Property/Real Estate Taxes</th>
<th>Mortgage Insurance (MI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>It’s likely that most lenders will require you to have homeowners insurance, which protects you (the homeowner) against financial loss resulting from wind, fire, natural disasters, or other hazards. You may also be required to obtain a separate flood insurance policy depending on the location of your property.</td>
<td>These taxes finance schools and public services in the community. Taxes vary from location, so ask your real estate agent about taxes in your area. However, a portion, if not all of your property taxes, may be tax-deductible. Consult your tax advisor for details.</td>
<td>This is almost always required when you put less than 20% down. Mortgage insurance protects your mortgage lender from financial loss if you can’t repay your loan.</td>
</tr>
</tbody>
</table>

If your mortgage payment includes taxes and/or insurance, your lender may require an escrow account. Typically, the lender deposits a portion of your taxes and/or insurance into your escrow account every month. When your taxes and insurance premiums are due, your lender pays those bills on your behalf with the money in your escrow account.
What are the most common types of mortgages?

Conforming vs. Non-Conforming Loans
A conforming loan is available on a one-to-four unit property and has a loan amount that conforms to the guidelines defined by Fannie Mae or Freddie Mac. A non-conforming loan has a higher “jumbo” loan amount or underwriting guidelines that are different than Fannie Mae or Freddie Mac.

Conventional vs. Government Loans
A conventional loan is a mortgage loan that is not insured or guaranteed by a government agency. These loans meet the underwriting guidelines as established by Fannie Mae and Freddie Mac and may require a down payment. A government loan is a mortgage loan whose underwriting requirements are established by government agencies such as the Federal Housing Administration (FHA) or U.S. Department of Veteran’s Affairs (VA). Government loans typically have lower down payment requirements than conventional loans.

What is a down payment?
A down payment is a portion of the purchase price of your home, expressed as a percentage. The amount of at least 20% lets you avoid private mortgage insurance and is typically paid in cash and becomes equity in your home. It’s never too early to start saving for a down payment. Consider opening a “home” savings account and have a set amount directly deposited into it every month. At the time you apply for your mortgage, sources of your down payment may include:

- Checking, savings, bonuses, and commissions
- Mutual funds and securities
- Down Payment Assistance programs
- Government grant programs
- Gift money from an eligible relative — You will most likely be required to provide written proof that the funds were a gift and not a personal loan

What if I am not able to make a 20% down payment?
If you don’t have enough cash for a 20% down payment, don’t worry — you still have options. There are several mortgage loans and programs that may help you reach your goals with less available cash. Just remember, if you make less than a 20% down payment, you will likely be required to purchase mortgage insurance.
Mortgage Rate Options

Many mortgage rate options are available to help you find the loan that best suits your needs. Your Mortgage Banker can help you understand your options so you can make the right decision.

<table>
<thead>
<tr>
<th>RATE OPTIONS</th>
<th>BENEFITS</th>
<th>FEATURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIXED RATE MORTGAGE</td>
<td>Often chosen by buyers who plan to stay in their home for a long time.</td>
<td>- The principal and interest payments stay the same, but the amount allocated to principal and interest changes as the principal is paid down.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- This is one of the most popular types of home loans because of its predictability and stability from a budget standpoint.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- It protects the borrower from interest rate increases over time.</td>
</tr>
<tr>
<td>ADJUSTABLE-RATE MORTGAGE (ARM)</td>
<td>Often chosen by buyers who think they might sell/move or refinance within a few years of purchase. Financially savvy buyers may choose an ARM if they think they can manage fluctuating and larger monthly payments in the event rates adjust upward.</td>
<td>- An ARM is a loan with an interest rate that fluctuates based on a publicly available rate index.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Many adjustable rate mortgages have an initial fixed interest rate period, typically 3, 5, 7, or 10 years. After the fixed rate period has ended, your interest rate will reset periodically (usually annually).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Interest rate and monthly payments can go up or down based on the value of the interest rate index plus a margin.</td>
</tr>
</tbody>
</table>

Affordable loan products with flexible down payment options

<table>
<thead>
<tr>
<th>LOAN OPTIONS</th>
<th>BENEFITS</th>
<th>FEATURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>FANNIE MAE HOMEREADY LOANS</td>
<td>An option for first-time or repeat homebuyers that have low- to moderate-income and limited cash for a down payment.</td>
<td>- This loan is an affordable, low-down-payment mortgage product designed for qualifying low- to moderate-income borrowers, with expanded eligibility for financing homes in low-income communities.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Loans require down payment as low as 3% and can come from multiple sources such as gifts, qualifying grants, and local Down Payment Assistance programs.</td>
</tr>
<tr>
<td>LOAN OPTIONS</td>
<td>BENEFITS</td>
<td>FEATURES</td>
</tr>
<tr>
<td>--------------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td><strong>FHA LOANS</strong></td>
<td>An option for homebuyers with lower credit scores or who are looking for a low down payment loan. Although FHA loans have the benefit of a low down payment, you’ll want to consider all costs involved, including upfront and long-term mortgage insurance and all fees. Insured by the FHA, this loan is often a great choice for first-time homebuyers because of the lower down payment and credit score requirements.</td>
<td>Property must meet certain minimum standards established by the Department of Housing and Urban Development (HUD). Requires a minimum down payment of 3.5%. Down payment may be gifted from an eligible relative, subject to limitations. Requires payment of an up-front and monthly government mortgage insurance premium. Fixed and adjustable rate mortgage options are available.</td>
</tr>
<tr>
<td><strong>VA LOANS</strong></td>
<td>An excellent mortgage option for active-duty service members or veterans of the military, reservists, and members of the National Guard, and some surviving spouses of veterans. A down payment and private mortgage insurance are not required. If making a down payment, the funds may be gifted from an eligible relative, subject to limitations. Fixed and adjustable rate mortgage options are available.</td>
<td></td>
</tr>
<tr>
<td><strong>USDA RURAL AREA LOANS</strong></td>
<td>An option for eligible borrowers interested in a U.S. Department of Agriculture (USDA) guaranteed loan for a new purchase or an existing dwelling in a rural area. Must be the homeowner’s primary residence.</td>
<td>Borrowers must meet income limits defined by USDA and the property must be located in a rural area as defined by USDA. Learn more about the program requirements. Check your eligibility: <a href="https://www.rd.usda.gov/">https://www.rd.usda.gov/</a></td>
</tr>
</tbody>
</table>
QUALIFY FOR A **MORTGAGE**

You can get an estimate of the amount for which you may qualify for by getting prequalified or preapproved.

**Prequalification vs. preapproval: What’s the difference?**

<table>
<thead>
<tr>
<th>Prequalified</th>
<th>VS</th>
<th>Preapproved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide lender with general financial information</td>
<td></td>
<td>A more complete financial review is done: Your credit history, earnings information, employment history and assets are verified</td>
</tr>
<tr>
<td>Lender may pull a credit report (1 agency)</td>
<td></td>
<td>Lender pulls a tri-merge credit report (all 3 agencies)</td>
</tr>
<tr>
<td>Lender provides an estimate of what you can afford</td>
<td></td>
<td>Lender will provide a preapproval letter for a loan with a specific dollar amount</td>
</tr>
<tr>
<td>No commitment from the lender that you are approved for a loan</td>
<td></td>
<td>Loan approval is subject to certain conditions being met including adequate appraisal, insurance, and no change in financial condition</td>
</tr>
</tbody>
</table>

These are optional services and are not required as a condition of getting a loan. Processes for prequalification and preapproval may vary by lender.
Are you creditworthy?

Your creditworthiness can be measured by a credit score established by a credit reporting agency. A credit score is a three-digit number that represents your creditworthiness based on information provided by your lenders and creditors and compiled into a credit report by the three major credit reporting agencies: Experian, Equifax, and TransUnion. Credit scores range from 300 to 850. Lenders will use your credit report and score to determine if you qualify for a loan and your interest rate.

The following information is taken into account when determining your credit score:

- **Your payment history.** The first thing lenders want to know is whether your credit payments have been made on time. Credit payment history determines 35% of your credit score.

- **How long you’ve had credit.** Generally, the longer your length of credit history, the better it is for your credit score.

- **The types of credit you have.** Do you have experience with both revolving credit (credit card) and installment type (auto loan) accounts?

- **Your credit limits and how much of those limits you’re using.** Try not to use all of the credit available to you. For example, if you have a credit card with a limit of $10,000, it’s best to use below 30% ($3,000).

- **How much debt you have.** Carrying a lot of debt can hurt your credit score and your ability to get approved for new credit cards and loans.

- **How many hard inquiries are on your credit report.** A hard inquiry occurs when you request additional credit in the form of a new loan or new credit card or when a lender or credit card issuer checks your credit when making a credit decision.
How can I improve my credit score?

- Pay your bills on time.
- Pay down balances on your credit cards. Don’t move debt around between credit cards.
- Check your credit history for accuracy. If something doesn’t look right, notify all three credit reporting agencies.
- Keep open and maintain your older accounts. A longer history shows you have more experience using credit.
- Don’t apply for new credit.

What else is considered when qualifying for a mortgage?

Lenders look at your credit score, debt, income, employment, assets, and the cash you have available for a down payment. They also factor in your debt-to-income (DTI) ratio. Your DTI ratio is a personal finance measure that compares your debt payments to your overall income (pre-taxed). This is one way lenders measure your ability to manage monthly payments and repay debt. A good guideline is to keep your total debt level at or below 43% of your gross monthly income.

HOW TO CHECK YOUR CREDIT HISTORY (FOR FREE)

You’re entitled to one free copy of your credit report every 12 months from each of the three major credit reporting agencies. Order online from annualcreditreport.com, the only authorized website for free credit reports, or call 1-877-322-8228. You will need to provide your name, address, social security number, and date of birth to verify your identity.
GLOSSARY

ANNUAL PERCENTAGE RATE
The cost of credit expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the APR includes the interest rate and certain other credit charges that the borrower is required to pay.

APPRaisal
An analysis performed by a certified individual to determine the estimated market value of a home.

BALloon PAYment
The final payment that is at least two times the periodic payment due on the maturity date and repays the loan in full.

CLOSING COSTS
Closing costs are charged by the lender and average 2-5% of the purchase price. The costs vary based on where you live, the property you buy and the type of loan you choose and may include an application fee, appraisal fee, credit report, lender’s policy title insurance and more.

CLOSING DISCLOSURE
A form that is provided at least 3 business days before your closing and provides final details about the mortgage loan you have selected. It includes the loan terms, your projected monthly payments, and how much you will pay in fees and other costs to get your mortgage (closing costs).

CO-BORROWER
An additional person who applies for the loan jointly with another applicant and who, if the loan is approved, is fully obligated under the terms of the loan. This person also has equal rights to the proceeds of the loan.

CREDIT SCORE
A number representing the creditworthiness of a borrower, the likelihood the borrower will pay his or her debts.

DEED OF TRUST
A form of security instrument used in many states, often also generically referred to as a mortgage, that, like a mortgage, pledges real estate to a lender as security for repayment of the debt, including granting the trustee under the deed of trust a power of sale to foreclose the property without a court proceeding, if necessary.

DEED PRODUCTS
A mortgage industry term that generically refers to lines of credit or mortgage loans that are secured by real estate collateral using a deed of trust or mortgage document.

FULLY AMORTIZED LOAN
A loan with equal, scheduled periodic payments of both principal and interest that pays the loan in full by the maturity date.

HOME EQUITY LINE OF CREDIT (HELOC)
A revolving line of credit secured by the equity in a home. Paired with a Bank of the West mortgage, it can be used help fund a down payment on the purchase your new home. It can also be used for home improvements, debt consolidation, and other major purchases. A HELOC typically offers a draw period and a repayment period.
INDEX
The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time.

INTEREST RATE CEILING
The maximum interest rate for an adjustable rate loan, as specified in the loan note.

INTEREST
The cost of the use of money.

LIEN
A security interest or encumbrance against a property for money due. The lien can be voluntary such as a mortgage or involuntary such as a judgement.

LIEN POSITION
The order in which liens will be repaid when the property is transferred to a new owner.

LOAN ESTIMATE
A form that you receive after applying for a mortgage. The loan estimate tells you important details about the loan you have requested. The form provides you with the estimated interest rate, monthly payment and total closing costs for the loan.

LOAN-TO-VALUE RATIO
A ratio used by lenders to calculate the loan amount requested as a percentage of the value of a home. To determine the LTV ratio, divide the loan amount by the home's value. The LTV value is used to determine what loan types the borrower qualifies for as well as the cost and fees associated with obtaining the loan.

MARGIN
The number of percentage points a lender adds to the index value to calculate the variable interest rate at each adjustment period.

NATIONWIDE MORTGAGE LICENSING SYSTEM AND REGISTRY (NMLS)
A federal registry of lenders and mortgage loan originators established as a result of legislation enacted to protect consumers. Intended to prevent fraud for mortgage loans secured by a dwelling.

PURCHASE AGREEMENT
The contract to be signed by the buyer and seller outlining the agreed-upon price for the purchase or real estate.

PURCHASE CLOSING
The time when your loan becomes final, the funds are distributed and you become the owner of your new home. Once complete, you are legally required to repay the mortgage. Your closing meeting may include some or all of these entities: your real estate agent or Realtor, your title insurance company, an escrow company, your attorney (if coming from another state), the seller's attorney and your lender may or may not attend.

SECOND MORTGAGE
A mortgage loan where the rights are subordinate to the rights of the first mortgage holder. Home equity loans are often referred to as a second mortgage because the borrower typically is still paying off their home purchase mortgage. If the home is paid off, the home equity loan is then considered to be the first mortgage.

TERM
The period of time agreed upon by the lender and borrower to repay the loan.
If owning a home is one of your goals, count on Bank of the West to assist you every step of the way. We’re committed to helping you through the home lending process. We offer a variety of home loan programs as well as competitive rates and discounts. So, when you’re ready to start your home financing journey, contact one of our Mortgage Bankers.

All loans subject to credit approval, standard mortgage qualifications and underwriting requirements, as well as Fannie Mae program guidelines. Additional fees, conditions and restrictions may apply. This information is accurate as of date of printing and is subject to change without notice.