First National Bank

First-Time Homebuyer's Guide

A resource to help guide you through the homebuying experience, from start to finish

Locations

Ames Main
405 5th Street
Ames, IA 50010

North Grand
2406 Grand Avenue
Ames, IA 50010

West Ames
3334 Lincoln Way
Ames, IA 50014

Ankeny
1205 North Ankeny Boulevard
Ankeny, IA 50023

West Glen
5625 Mills Civic Parkway, Suite 100
West Des Moines, IA 50266

Valley Junction
5th Street
West Des Moines, IA 50265

Osceola Main
139 South Main Street
Osceola, IA 50213

Jeffreys Drive
1320 Jeffreys Drive
Osceola, IA 50213

Contact Us

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Email: info@FNB247.com

FNB247.com

EQUAL HOUSING LENDER | Member FDIC

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At First National Bank...WE CARE

It's what banking should be.

Established in 1903, First National Bank (FNB) has helped thousands of first-time homebuyers, just like you, work through the process of purchasing a home. We've put together this First-Time Homebuyers Guide to help you get a little more familiar with how purchasing a home works in today's market.

Take comfort in knowing that FNB's mortgage lenders will work hard on your behalf from start to finish, both alongside you and behind the scenes. It's our sincerely hope that you can move forward confidently to the new place you will soon call home.

Whether you are ready to buy or just thinking about it, it's never too soon to start talking to one of our mortgage lenders. Your mortgage lender will ask about your plans and financial situation, give you straightforward information about your home financing options, and make sure you have the facts you need to make an informed decision. In fact, the earlier you make an appointment for a free, no-obligation consultation with one of our lenders, the more prepared you'll be as you start your journey toward homeownership.

We're anxious to meet you and to become a trusted partner on your homebuying journey.

FNB Mortgage Lending Team

MORTGAGE LENDING EXPERTS

Top 5 Reasons to Choose First National Bank . . .

- **Established Business Relationships.** First National Bank has established relationships with all of the key players involved in the home-buying process, including: Realtors, appraisers, title companies, and insurance agents. Together, we find solutions to get loans closed quickly.
- **Local and Accessible.** Key loan decisions are made by local lenders who live in the communities they serve — meaning you'll get the services you'd expect from a community bank, including personal access to our lenders.
- **Convenient, Simple, Quicker.** First National Bank's convenient, easy-to-use online loan application process means quicker results — **faster application reviews, faster pre-qualifications, and faster closures.**
- **Outstanding Customer Service.** First National Bank has some of the highest customer satisfaction ratings, demonstrating that we are there for you every step of the way.
- **Experienced Lenders.** Our mortgage lenders have more than **61 years of combined mortgage lending experience**, which means they know how to prevent surprises and make closing hassle-free.

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Is homeownership right for you?

A home can be a great place to build memories with friends and family and build a financial foundation for your future. One of the biggest decisions people will make is whether to purchase a home. There is a lot for you to think about when considering if the time is right to buy.

To make an educated decision on which route to take, let's learn more about the real costs of home ownership, the responsibilities of owning a home, and pros and cons of renting versus buying.

DO YOU KNOW THE FULL COST OF OWNING A HOME?

There are a number of one-time expenses that go into the total cost of owning a home. As a first-time homebuyer, you might not be aware of all the costs associated with homeownership.

- **Upfront costs.** The initial amount of money you need to buy a home, including the down payment, the closing costs, and any escrow funds.
- **Ongoing costs.** The continued cost of living in a home you own, including mortgage payments, property taxes, insurance, utility bills, homeownership association fees (if applicable), and routine repairs, and maintenance.
- **Major repairs.** Large and expensive repairs and renovations your home will eventually need, such as roof replacement or foundation repair.

ARE YOU READY TO OWN A HOME?

Buying a home isn't for everyone. Before you make any decisions, consider the following questions:

- Are you ready to devote the time to regular home maintenance?
- Are you aware of all the costs and responsibilities that come with being a homeowner?
- Do you have the financial management skills and discipline to handle this large of a purchase?
- Are you financially stable?

RENTING VERSUS HOMEOWNERSHIP

Start by finding out the average home price in the area where you want to live. Next, make a list of the pros and cons of owning versus renting to see which option is best for you.

There are advantages and disadvantages to renting and owning a home. Make sure you understand the benefits and responsibilities of each before you decide what's right for you.

Renting	
Pros	**Cons**
Less maintenance and repairs, because the landlord handles most maintenance	Monthly payments may increase year after year
Lower monthly costs	The risk that your lease won't be renewed if the landlord decides to sell the property
Shorter term commitment, making it easier to move to a different home, neighborhood or city	You're paying someone else's mortgage rather than building equity in your own
Protection from a decrease in property values	You can't paint or remodel without the landlord's permission
Possibility to free up cash to invest or to save a larger down payment for a home	No tax incentives
Homeownership	
Pros	**Cons**
Freedom to renovate or modify your home as you wish	The risk of financial loss if your home has lost value when you sell
You are building up equity in a safe, secure investment as you pay down your mortgage	Responsibility for all ongoing costs, including mortgage principal and interest, property taxes, insurance, and maintenance
More space and privacy	Monthly payments can increase significantly if interest rates go up at renewal time
Stability and peace of mind that comes from being in control of your investment and owning the place where you live	Possibility of unexpected and potentially costly repairs
Provides a sense of stability and community	Long-term commitment
	High up-front costs

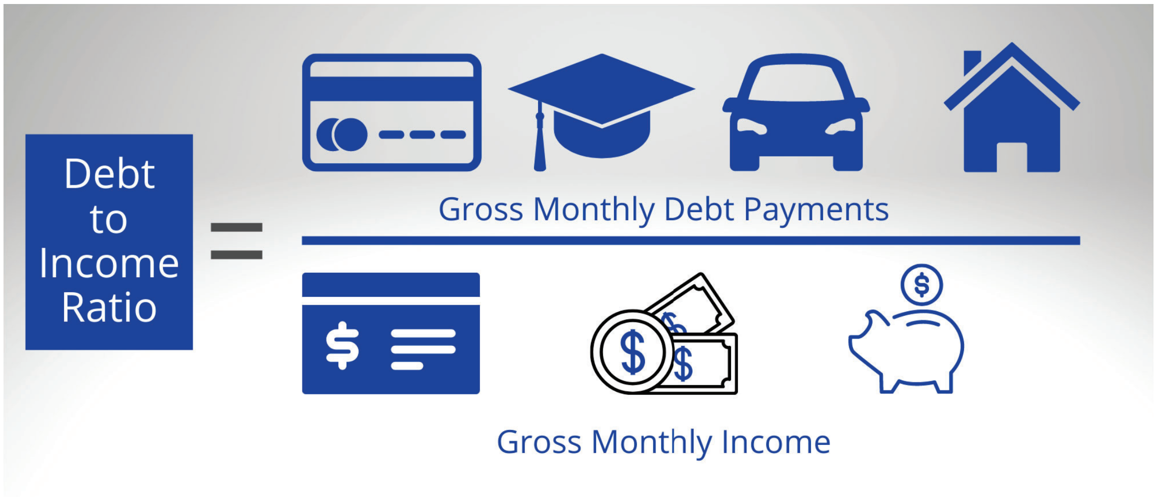
Are you financially ready to own a home?

It is important to figure out how much you can afford to spend before you start looking for a home. Your mortgage payment will probably be the biggest expense, but there are other costs you should be aware of. The more you know about your current financial situation, the more prepared you'll be when you meet with your lender.

CALCULATING YOUR DEBT-TO-INCOME (DTI) RATIO

Determining your Debt-to-Income (DTI) ratio is as simple as taking the total sum of all your monthly debt payments and dividing that figure by your total monthly income. For example, if your debt costs $2,000 per month and your monthly income equals $6,000, your DTI is $2,000/$6,000, or 33 percent. Use the budget worksheet on the next page to help determine your DTI.

This number doesn't necessarily portray a detailed picture of your financial strengths and weaknesses, but it does give lenders the thumbnail sketch of your finances they need to make a decision. A good DTI is considered to be below 50% or less.



UNDERSTANDING THE UPFRONT COSTS OF BUYING A HOME

Many homebuyers only think about the down payment when they are saving for a house. But you'll also pay a slate of other upfront or out-of-pocket costs to buy a house. In addition, you should also take into consideration your moving expenses and any potential immediate repairs or renovations that may be needed to get your new home up to your standards.

- **Down payment**—The part of the home price that is paid when you make an offer to purchase
- **Closing costs**—Loan cost for services pertains to fees for services such as for an appraisal, a credit report fee, flood determination and certificate, pest inspection, and title search.
- **Origination charges**—The origination fee is charged by your lender for processing the application, underwriting and funding the loan, and other administrative services. These fees typically range from 0.5% to 1.0% of the borrower's mortgage but can be higher for smaller loans.
- **Prepaids and escrow payments**—Buyers will have some escrow items: homeowners' insurance, property taxes, and private mortgage insurance. If a buyer moves into a condo or townhouse, there may be an HOA or homeowners' association that collects monthly dues for the upkeep of the community. Those fees vary by community and range from $50 to $800 a month.

How will you pay the closing costs?

Some loan programs restrict the sources of funds that can be used to make your down payment. Generally, these are eligible sources:

- **Personal checking or savings account**
- **Gift from a relative (not a loan)**
- **Sale of stocks or bonds**
- **Inheritance**
- **Tax refund**
- **Proceeds from sale of real estate**

UNDERSTANDING YOUR CREDIT HISTORY AND SCORE

Your credit score will play a major role in determining whether you will be able to obtain a mortgage loan. To check on your credit score, you can request a free copy of your credit report from each of the three credit reporting agencies by accessing **www.annualcreditreport.com.**

Check your credit report for accuracy
Review your credit report for accuracy. If there is an inaccurate item, dispute it promptly through the credit bureaus. The three major credit bureaus are Experian, TransUnion, and Equifax. Some mortgage programs do not allow pending disputes on a credit report, so wait until the disputes have cleared to apply.

What impacts your credit score?
On-time payments, available credit, length of credit history, type of credit used, and past credit inquiries impact your score.

If you have a low credit score, work toward raising that score before submitting your application. There are a few things that may boost your score:

- Keep your balance on credit cards at 30% of limit or less.
- If you don't have credit history, you need to build it. The primary way to do this is to obtain credit and make timely, regular payments. Getting a credit card could help establish a credit history.
- If you have collections or judgments on your credit report, pay them off to qualify for the mortgage.

Once you correct any errors on your credit report and you meet the minimum credit score requirements for the loan program you are interested in, then you shouldn't make any major purchases or apply for credit cards until you close on your new home because the new credit accounts or inquiries may negatively impact your credit score.

What Does Your Credit Score Mean?

Credit Score	Rating
740	Exellent
700-739	Good
640-699	Fair
580-639	Marginal
Below 580	Credit Challenged

Which Credit Scores Do you Use?

647 Experian

641 TransUnion

719 Equifax

Lenders use the middle score, not average. For example, if your scores are 647, 641, and 719, then your middle score is 647, which is not the average score of 669.

What Should I Do If My Finances Aren't Yet Ready for a Home Loan?

If you think you'll have trouble making mortgage payments or you're concerned about your financial situation, don't be discouraged...take action to improve your credit score.

Here are 10 strategies that can help.

Talk With a Pro
Meet with a nonprofit credit counseling agency to develop a debt management plan to address any missed payments or high balances.

Lower Debt
Pay off some loans or other debt. Sometimes consolidating your debt makes it easier to pay off more quickly.

Resume Payments
Plan to resume paying federal student loans after the COVID-related payment freeze is over.

Pay Down "Maxed Out" Cards
Pay down the credit card that is closest to the credit limit first.

File a Dispute
Dispute any credit report inaccuracies.

Face it Head-on
If you have delinquencies or items in collections, accept the fact that they need to addressed before you can get a loan.

Make Timely Payments
Set due-date alerts, automate bill payments, and create a filing system to track monthly bills.

Create a Budget
Create a budget and look for ways to spend less per month and save more. Then closely track your spending.

Monitor Your Score
Track your credit score monthly using the free credit score companies. Limit your requests for new credit and hard inquiries that come with them.

Wait it Out
Wait for negative items to fall off your credit reports.

Home Loan Basics

For a first-time homebuyer, mortgage loan financing can seem confusing, but it doesn't have to be. There are a few things to understand, and the more you know, the more prepared you'll be.

What does a mortgage loan payment include?
Your mortgage loan payment typically includes PITI.

- **Principal.** What you borrowed (amount financed)
- **Interest.** What the lender charges you to borrow the money used to purchase the home
- **Taxes.** What you pay in property taxes to your county assessor
- **Insurance.** What you pay to insure your home from damages (fire, natural disasters, etc.). There is also Private Mortgage Insurance (PMI), which is usually required on most loans when your down payment is less than 20 percent. PMI is paid monthly until you reach the 20 percent equity threshold.

What are the types of loans?
Fixed-rate mortgage. Interest rate remains the same for the life of the loan, providing you with a stable and predictable monthly payment. A variety of terms, including 30, 20, and 15 year.

Balloon. A balloon loan is a type of loan that does not fully amortize (paid off through regular principal and interest payments over time) over its term. Since it is not fully amortized, a balloon payment is required at the end of the term to repay the remaining principal balance of the loan.

Adjustable-rate mortgage (ARM). Interest rate is flexible and subject to adjustments – either on specific dates (3-, 5-, 7-year adjustment) or based on market conditions. An adjustable-rate mortgage may provide you with a lower rate in the beginning of the loan; however, the payment may increase over time.

What is an escrow account?
Taxes and insurance are usually held in an escrow account and paid by the mortgage holder when they are due. A portion of your monthly payment goes to fund the escrow account. This can be beneficial – especially for first-time buyers – as you set aside a small amount each month instead of having a large, semi-annual or annual out-of-pocket expense. But it does increase your mortgage loan payment and reduce your cash flow each month.

Mortgage Loan Prequalification

You've done a lot of hard work to get this far. Now it's time to make your call. Confirm your decision and intent to proceed with buying and financing your home.

- I can repay the loan
- I am comfortable with my monthly payment
- I've learned enough to know this is a good deal for me.

If you are ready to make your dream of owning a home a reality, you should consider getting prequalified for a mortgage. Prequalification is an early step in your homebuying journey. When you prequalify for a home, you are getting an estimate of **what you might be able to borrow,** based on information you provide about your finances, as well as a credit check.

Prequalification is also the time to discuss different mortgage options and to work with your lender to identify the right fit for your financial needs. Prequalification at First National Bank is a quick process that can be done online, and you will get results within 24 to 48 hours.

Getting prequalified is not a guarantee of final approval for a mortgage.
When you receive a loan prequalification estimate, the bank has not yet approved or denied your loan. Up to this point, we are showing you what we **may be able to offer** if you decide to move forward with your loan application. You have not committed to getting a loan. In fact, you're not committed to any lender before you have signed the final closing documents.

What's the difference between prequalification and pre-approval?
Prequalification is a lender's judgment of your ability to make payment on your mortgage, based on your verbal state of income, assets, and employment history.

Pre-approval is the underwriting decision that you are conditionally qualified based upon the lender's review of your completed application, verification of your income, assets, employment history, credit check, and other determining factors. An appraisal will be needed for full approval.

Homebuyer's Tip

You may qualify to borrow more than you are comfortable spending on a home. That doesn't mean you have to spend more. Simply limit your home search to houses priced at an amount you can comfortably afford.

Don't let the loan application process prevent you from making an offer on the home of your dreams! Be ahead of the game by having all of your documents organized and ready to give your lender. Here is a checklist of documents and materials you'll need in order to apply for a mortgage.

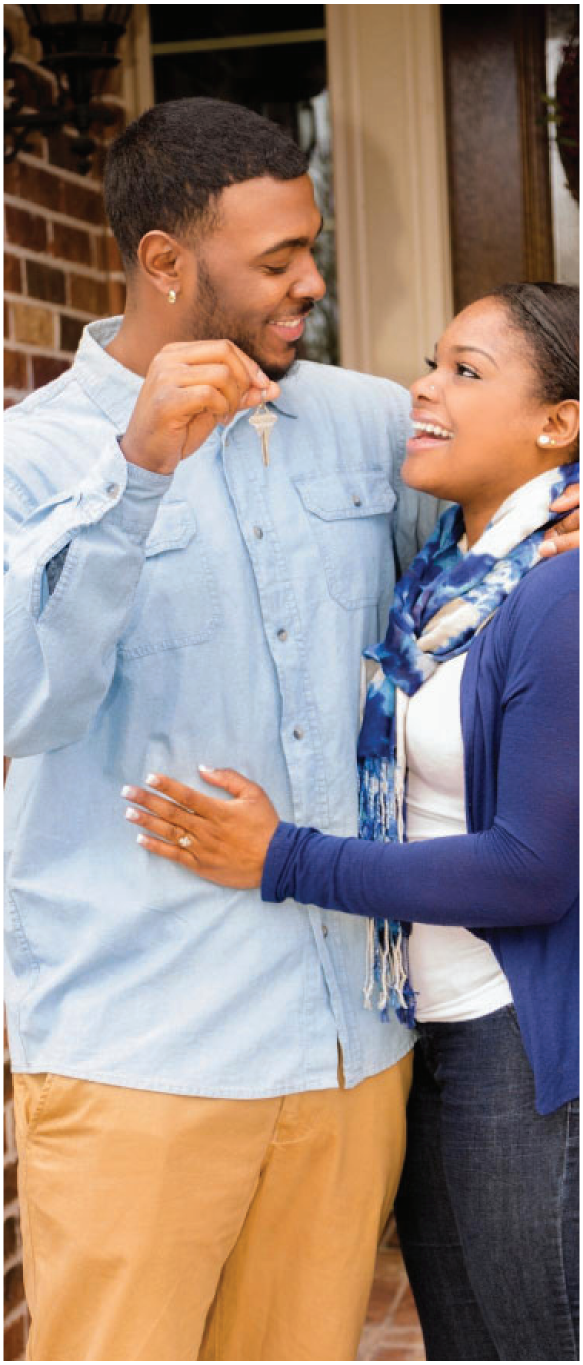
Personal Information
- Government-issued IDs with current address
- Social Security number
- Age
- Marital status
- Number and ages of dependents
- Current address and telephone number(s)
- Addresses for the past two years
- Current housing expense
- Name and addresses of landlord for the past two years

Employment History and Income
- Two years of employment history
- Recent pay stubs and two years of W-2 forms
- Complete tax returns and financial statements, if self-employed (all pages covering most recent two years)
- Written explanation of employment gaps
- Records of dividends and interest received
- Proof of other income

Assets
- Two months of bank statements (checking & savings)
- Current values of stocks, bonds, mutual funds, and other investments (investment account statements)
- Vested interests in retirement funds
- Value of life insurance
- Information on real estate you own
- Proof of down payment (amount and source(s))

Liabilities
- Itemized list of all current debts (loans, credit cards, and other bills)
- Written explanation of past credit problems
- Full details of bankruptcy during last seven years

Purchase Contract and Property Information
- Copy of the sales contract
- Mailing address and property description
- Contact information for access to the property
- Plans and specs (for new construction only)



Mortgage loan insurance

If you have less than 20% saved for a down payment, you will likely have to obtain mortgage loan insurance. It protects the bank against the risk of mortgage default, just like property insurance protects you in case of loss. Insurance premiums on mortgage loans are calculated as a percentage of your total loan amount. They are based on factors including the size and source of your down payment. In general, the smaller the down payment is, the higher the insurance premiums will be. You can usually pay your mortgage loan insurance premiums up front or have them added to your mortgage loan.

Tips for planning and managing your mortgage

When financing a home, make sure you are prepared to deal with any challenges that come up. These can include a loss of income, increased expenses, or rising interest rates. The following tips can ensure you're financially stable through any ups and downs.

Choose a smaller mortgage. Get a smaller mortgage than the maximum amount you can afford. This will keep your monthly housing costs lower and allow you to deal with sudden changes in your income or expenses.

Evaluate the impact of higher interest rates on monthly payments. With a variable rate mortgage, even a small increase in interest rates could have a big impact on your monthly costs. Taking time now to learn how changing rates could affect you may help you avoid financial problems in the future.

Plan to be mortgage free sooner. You can pay down your mortgage faster by making your payments weekly or every two weeks. You can also increase the amount of your regular payment or make additional lump sum payments if your mortgage allows it. Talk to your lender to see all possible options.

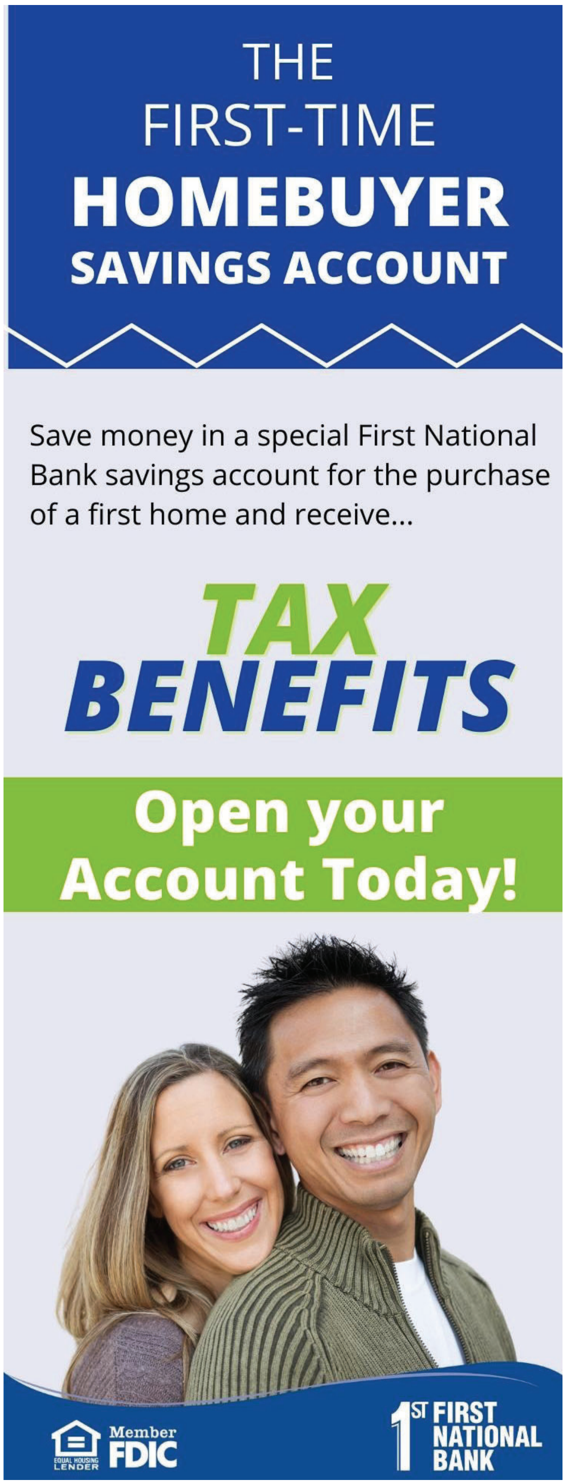
Be proactive and ask for help if you need it. If unexpected challenges affect your ability to make mortgage payments, contact your lender as soon as possible. They can work with you to find a solution to any temporary financial setbacks.

Lock in your interest rate. In a volatile market where interest rates are rising, consider locking in your interest rate At First National Bank, you can lock your interest rate for 30, 45, 60 or 90 days, once you have a signed purchase agreement. The longer lock periods, such as the 90-day lock, may be at a slightly higher rate; or you may need to pay an additional fee. The fee is measured in basis points, such as 25 bps, or 0.25% of the total loan value. A 0.25% rate lock fee on a $200,000 loan would be $500. Once the rate is locked, the loan's interest rate will not change, barring any changes to your application details.

Search for the Perfect Home

Now that you have a clear picture of your finances and mortgage options, it is time to start thinking about the kind of home you want to buy. Look for a home that will meet your needs not just today, but also five (5) or even 10 years into the future.

What do you want or need in a home?
Make a list of your requirements and preferences for a home. Start with the "must-haves" in your home and then "wants" (which are not necessary features).



HOMEBUYER'S CHECKLIST

Basic Features
Bedrooms #_____ Bathrooms #_____
☐Office Space ☐Central Air

Garage
☐#cars ___ ☐Attached ☐Detached

Kitchen Features
☐Gas Stove/Cooktop ☐Appliances Included
☐Microwave ☐Dishwasher
☐Walk-in Pantry ☐Updated Countertops
☐Updated Kitchen ☐Large Kitchen

Bedroom Features
☐Walk-in Closets ☐Master Bathroom

Bathroom Features
☐Double Vanity and Sinks
☐Bathtub ☐Walk-in Shower

Additional Indoor Features
☐Gas Fireplace ☐Wood Fireplace
☐Mudroom ☐Main Level Laundry
☐Security System ☐Smart-Home Technology
☐Mounted TV or Sound System Wiring
☐Dining Room ☐Hardwood Floors
☐Finished Basement ☐Storage
☐Upgraded Light Fixtures and Ceiling Fans
☐Washer and Dryer Included

Outdoor Features
☐Yard Space ☐Wooded Lot
☐Deck/Patio ☐Front Porch
☐Pool ☐Privacy Fence
☐Storage Shed ☐Outdoor Entertaining
☐Exterior Lighting ☐Landscaping

Home Buying or Home Building?

Another choice you will need to make is deciding between a new home, one that has been previously owned, or one that you will build yourself. Take time to carefully consider each option.

- **New home.** Is the home built and ready to move into, or will you have to wait for the construction to be completed? If the move-in date gets delayed, how will that impact your plans and finances?
- **Previously owned.** How is the condition of the home? Are any major repairs or renovations needed in the short-term? If so, can you add the cost of the repair or renovation to your mortgage?
- **Build your own.** Building a home is a great way to get exactly the size, style, features, and quality you want. It can also be a significant investment of time and energy.

Talk to your lender about financing options, including home construction loans.

Start Your Search

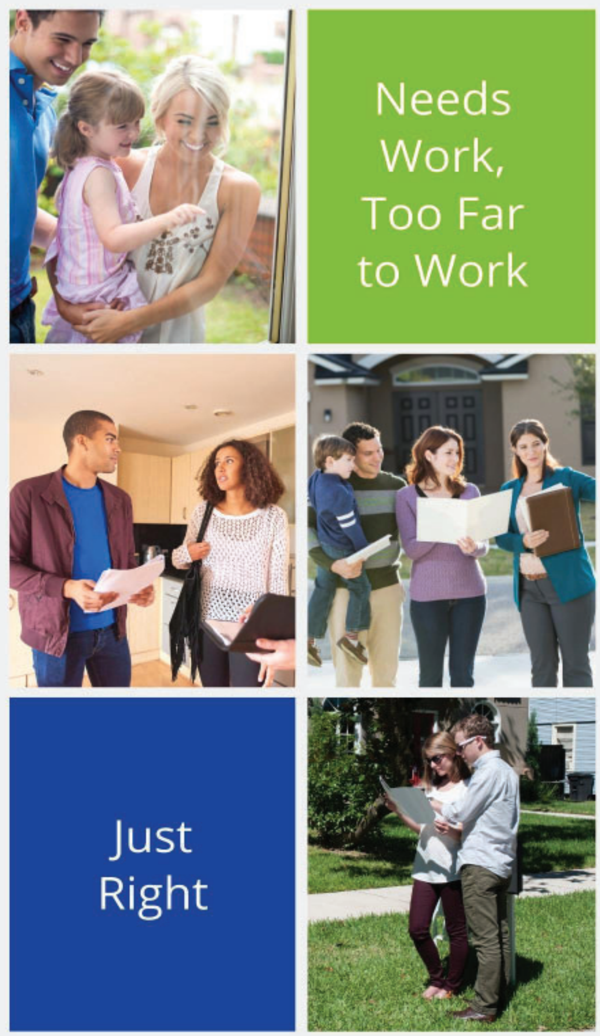
Once you know what kind of house you're looking for, you can begin your search. This can be done through:

- word of mouth
- social media
- newspapers and real estate magazines
- visits to new housing developments
- real estate websites and Internet searches
- "For Sale" signs
- a real estate agent

When you go view homes, take a House Hunting Checklist to make notes on every home you see. Also, you may want to take photos of each home so you can remember what they look like.

You may look at one home or dozens before you find the perfect one for you. One of the biggest mistakes homebuyers make is they keep searching for the "perfect home" and they pass on a beautiful home because of a flaw, such as the wrong color of paint on the wall or a scratch on the wood floor.

Remember, when you buy a home from somebody else, you need to visualize it as your own and be willing to repaint the home in your favorite color or refinish a floor. The perfect home is your vision of what it can be and then you make it your dream home.



HOUSE HUNTING
checklist

Date ______________________________
Address ___________________________
Listed For _________________________
School District _____________________
Distance From Work _________________

Exterior of Home

Landscaping

Curb Appeal
____

Condition of Trees
____

Condition of Lawn
____

Condition of Fences
____

Roof

Age
____

Condition
____

Windows

Age
____

Condition
____

Siding

Type
____

Condition
____

Driveway

Type
____

Visible Cracks
____

Foundation

Visible Cracks
____

Garage

No. Stalls _______

Attached or Detached
____

Interior of Home

Living Room

Condition of:

Flooring
____

Walls
____

Ceilings
____

Storage
____

Bathrooms

Condition of:

Flooring
____

Walls
____

Ceilings
____

Mold/Mildew ___

Ventilation ______

Kitchen

Condition of:

Flooring
____

Walls
____

Ceiling
____

Storage ________

Appliances ______

Bedrooms

____

Condition of:

Floorings
____

Walls/Ceilings
____

Closet Spaces
____

Master Bath _____

ASSEMBLING YOUR HOMEBUYER'S TEAM

It's good to have a team of experienced professionals to help you along the way. Do your research. It's important to research the people who will help you buy your home. The more information you have, the better prepared you will be to make the best decision.

Real Estate Agent	Most homebuyers need a real estate agent to walk you through the complex homebuying process. They can help you find qualified professionals to fill out your homebuying team. Your agent can: • Discuss what your "must-haves"for your dream home. • Email you listings of property listings. • Show you homes that meet your search criteria and price range. • Provide you with details about a home you love…like days on the market, property taxes, neighborhood information, average sale prices of comparable homes in the area. • Submit an offer to purchase to a seller. • Negotiate with the seller agent to get you the best deal possible. • Handle the paperwork (e.g., offers, contracts, property disclosures). • Attend closing to answer questions and deal with any issues that may arise.
Lender	Selecting an experienced lender that takes your interests and financial needs seriously is paramount. A trusted lender, like First National Bank, will provide you with professional guidance to help you weigh your options and make decisions about loan options and terms and conditions. They should be responsive to your questions and keep you informed throughout the lending process.

Making an Offer and Closing the Deal

Congratulations! You have chosen a mortgage that works for you, found a home that fits your budget, and put together your homebuying team. Now it is time to make an offer and close the deal!

MAKING AN OFFER

Once you have found the home you want to buy, you need to give the seller an offer to purchase (also called an "agreement of purchase and sale"). An offer to purchase is a legal contract that should be carefully prepared by your real estate agent or your lawyer.

Your offer generally will include:

- your legal name, the name of the seller and the address of the property
- purchase price (the amount you're offering to pay)
- amount of your deposit (or earnest money). Earnest money will be credited back to you or applied to your down payment at closing. The average earnest money deposit is 1% of the purchase price.
- any extra items you want included in the purchase, such as window coverings or appliances
- closing date, which is the date you want to take possession of the home (usually 30 to 60 days after the agreement is signed for existing homes and longer for newly constructed homes) date the offer expires
- any other conditions that must be met, such as a satisfactory home inspection or lender approval of your financing

Expect to negotiate. You should select a real estate agent that is assertive and not afraid to negotiate the best price and terms on your behalf.

Once you have an accepted offer, you will need to write a check for the deposit/earnest money and set up a home inspection. You may ask the seller to modify some of the terms of the contract or address home inspection issues brought up by the home inspector. After both sides agree on contract changes and other issues, then you can keep moving forward with the deal.

HOME INSPECTION

Normally, you have about one week after you have a signed contract to get a home inspection on your new home and address any issues with the seller.

You can ask the seller to fix things or give you a cash credit at the closing to offset the repair costs.

You can also walk away without penalty, if the seller decides not to make any repairs.

You may also decide that the items that came up on the home inspection report are minor and you will proceed forward with the deal without asking the seller to fix anything.

The home inspector's job is to point out all the imperfections of a home, which can really freak out a first-time homebuyer.

Don't panic. Simply go over the inspection report with your real estate agent line by line. Identify and major and minor issues, and then decide which ones should be addressed by the seller.

The inspector will give you a full inspection report with photos and point out:

- Whether a problem is a safety issues, major defect, or minor defect
- Which items need to be replaced and which ones need to be serviced or repaired.
- Items that are okay now, but you need to monitor closely.
- Routine maintenance needs to be performed on the home.

Getting Your Mortgage Loan

INTENT TO PROCEED

Once you have found your dream home, the next step is to tell your lender you want to proceed with the mortgage application. This is called expressing your **Intent to Proceed.** Lenders have to wait until your express your intent to proceed before they require you to pay an application fee, appraisal fee, or most other fees.

APPROVAL CONSIDERATIONS

You will need to meet certain criteria before you can get approved for a loan. Here are some of the key factors that determine whether a lender will give you a mortgage loan.

- **Debt-to-Income ratio.** Do you have enough monthly income to pay your existing debts and your new mortgage?
- **Full-time Employment.** You will be asked to provide pay stubs to verify your income. If you don't have an employer, you'll need to provide proof of income from another source (i.e., government payments, self-employment)
- **Credit Score and History.** How have you handled your other credit obligations?
- **Down Payment.** Do you have enough money available to pay the required down payment and closing costs for a new mortgage, as well as reserves for other living expenses?
- **Value and Condition of the Home.** Is the home you want to purchase worth as much or more than the price you agreed to pay based on the condition and market value of the property?

FINAL CLOSING TASKS

The timeline in the table on the next page is a general estimate of the time to complete the loan process and tasks to be completed to close on the loan.

Your Home Loan's Journey

Days 1: Loan Application Submitted
The borrower completes the loan application.

Days 1 through 14: Review Disclosures & Order Appraisal
The loan officer collects and verifies all documents necessary to prepare the loan file for underwriting; and orders a home appraisal to determine the property's value.

Days 15 through 30: Underwriting
The Underwriter begins the loan underwriting process, reviewing all documentation to determine whether you qualify for a mortgage. The Underwriter may have questions and request additional documents.

Days 30 through 40: Conditionally Approved & Clear to Close
Once your loan is approved there may be some conditions to clear that require you to provide additional documentation. Once the conditions are cleared by the underwriter, then you loan is "Clear to Close."

Days 40 through 50: Review Closing Disclosure
Your lender will send you the Closing Disclosure at least three business days prior to closing to review final closing cost figures and cash needed to close your loan.

Days 45 through 60: Closing & Loan Funded
Closing day is an exciting time. There are four basic steps.

1. **Loan signing** is when you sign all of the paperwork.
2. **Recording** means that the grant deed to the property is recorded in the County Recorder's Office. Once the grant deed is recorded, escrow can disburse the funds and close the escrow account.
3. **Disbursement** is when all the parties involved receive the money they're owed and everyone can consider the mortgage closed. Homeowners will receive the keys to their new home when disbursement is complete.

CONGRATULATIONS! You are now a homeowner.

Owning Your Home: Protecting Your Investment

Owning a home is exciting and an important financial investment. Below are some tips on how to protect your investment.

Make your mortgage payments on time
You can make your mortgage payments weekly, every two weeks or once a month. Whichever schedule you choose, always make your payments on time. Late or missed payments may result in charges or penalties, and they can negatively affect your credit rating. Set up automatic payments so you will never forget making your payment on time.

Plan for the costs of operating a home
You will have several ongoing costs besides your mortgage, property taxes and insurance. Maintenance and repair costs are at the top of the list, along with expenses for security monitoring, snow removal, and lawn maintenance.

Live within your budget
Prepare a monthly budget and stick to it. Take a few minutes every month to check your spending and see if you're meeting your financial goals. If you spend more than you earn, find new ways to earn more or spend less. First National Bank customers can use the Cash Management tool online and mobile banking to help track and manage their budget.

Save for emergencies
Your home will need some major repairs as it ages. Set aside an emergency fund of about 5% of your income every year so you'll be prepared to deal with unexpected expenses.

Use home equity wisely
Home equity loans and lines of credit can be helpful financing options in the event that you need to make necessary home repairs. But remember your home equity is not an ATM. Any time you borrow money against your home, you are reducing the amount of equity you have in it.

Adjustable-rate mortgage (ARM). A mortgage where both the interest rate and the monthly payments vary based on changes in the market rates.

Amortization. The period of time required to completely pay off a mortgage if all conditions are met and all payments are made on time.

Annual Percentage rate (APR). the cost of credit on a yearly basis, expressed as a percentage. It is required to be disclosed by the lender on the loan estimate. Because it includes certain costs paid to obtain a loan, it is usually higher than the interest rate stated in the mortgage note. The APR aids in comparing the true cost of loans offered by lenders.

Application. A form used to apply for a mortgage. It includes all of the relevant personal and financial information of the person applying.

Appraisal. A written estimate of the current market value of a home.

Appraiser. A certified professional who carries out a home appraisal.

Appreciation. An increase in the value of a home or other possession from the time it was purchased.

Certificate of location (or “survey”). A document that shows the legal boundaries and measurements of a property, specifies the location of any buildings and states whether anyone else has the right to cross over the property for a specific purpose.

Closing. When the deed and financial documents are delivered, necessary documents are signed, and the funds necessary to consummate a loan transaction are disbursed. This is also called “settlement.”

Closing costs. The legal fees, transfer fees, disbursements and other costs that must be paid when buying a home. These are in addition to the down payment. Closing costs are due on the day the buyer officially takes ownership of the home, and they usually range from 1.5% to 4% of the purchase price.

Closing date. The date when the sale of the property becomes final and the new owner takes possession of the home.

Commitment letter (or “mortgage approval). A written notification from a lender to a borrower that says a mortgage loan of a specific amount is approved under specific terms and conditions.

Compound interest. Interest that is calculated on both the original principal and interest that has already been earned (or “accrued”) on that principal.

Closing disclosure. A document that provides the actual terms and costs of the loan. The borrower receives it at least three (3) business days before the closing.

Commission. A percentage of the sale that is paid to the real estate professional. In most situations, commissions are paid by the seller of the property.

Conditional offer. An offer to purchase a home that includes one or more conditions (for example, a condition that the buyer is able to get a mortgage) that must be met before the sale can be officially completed.

Condominium. A type of homeownership where people own the unit they live in and share ownership of all common areas with the other owners. Common areas can include parking facilities, hallways, elevators, lobbies, gyms, swimming pools and the grounds or landscaping.

Contingent. A status in which a seller has accepted an offer, but relies on meeting certain criteria, such as passing a home inspection or appraisal.

Contractor. A person who is responsible for the construction or renovation of a home, including scheduling, workmanship and managing subcontractors and suppliers.

Conventional mortgage. A mortgage loan equal to or less than 80% of the value of a property. (That is, where the down payment is at least 20%.) Conventional mortgages don’t usually require mortgage loan insurance.

Counteroffer. An offer made by the seller of a home after rejecting an offer by a potential buyer. The counteroffer usually changes something from the original offer, such as the price or closing date.

Credit bureau. A company that collects information from various sources on a person's borrowing and bill-paying habits. They provide this information to lenders to help them assess whether or not to lend money to that person.

Credit history (or "credit report"). The report a lender uses to determine if a person should get a mortgage.

Curb appeal. How attractive a home looks from the street, including features like landscaping and a well-maintained exterior.

Debt-to-Income (DTI) Ratio. Expressed as a percentage and is equal to a borrower's total monthly payment obligations on current debts divided by your gross monthly income.

Deed. A legal document that transfers ownership of a home from the seller to the buyer.

Default. Failing to make a mortgage payment on time or to otherwise abide by the terms of a mortgage loan agreement. If borrowers default on their mortgage payments, their lender can charge them a penalty or even take legal action to take possession of their home.

Delinquency. Failing to make a mortgage payment on time.

Deposit. Money that a buyer places in trust to show they are serious when they make an offer to purchase a home. The deposit is held by the real estate agent or lawyer until the sale is complete, and then it's transferred to the seller.

Depreciation. A decrease in the value of a home or other possession from the time it was purchased.

Down payment. The portion of the home's purchase price that is not financed by a mortgage loan. The buyer must pay the down payment from their own funds (or other eligible sources) before securing a mortgage.

Duplex. A building that contains two separate and complete single-family homes located either adjacent to each other or one on top of the other.

Earnest money. A deposit made by the potential home buyer to show that they are serious about buying the home.

Easement. A legal interest in a property owned by another person or company for a specific limited purpose. For example, a public utility company may have an easement that lets them pass through a property.

Emergency fund. Money that a homeowner regularly sets aside to pay for emergencies or major repairs. Owners should usually save around 5% of their monthly income for emergencies.

Equity. The cash value that a homeowner has in their home after subtracting the amount of the mortgage or other debts owed on the property. Equity usually increases over time as the mortgage loan is gradually paid. Changes in overall market values or improvements to a home can also affect the value of the equity.

Escrow. The portion of your mortgage payment collected by the lender that is deposited into an escrow account to pay the annual real estate taxes, homeowner's hazard insurance premiums, and, if applicable, any mortgage insurance premiums or flood insurance.

Fixed-interest rate mortgage. A mortgage with a locked-in interest rate, meaning it won't change during the term of the mortgage.

Foreclosure. A legal process whereby the lender takes possession of a property if the borrower defaults on a loan. The lender then sells the property to cover the unpaid debt.

For Sale by Owner (FSBO). A FSBO is a property that is being sold by the current homeowner without the aid of a real estate agent.

Gross monthly income. Total monthly income of a person or household before taxes and other deductions.

Home inspection. A thorough examination and assessment of a home's state and condition by a qualified professional. The examination includes the home's structural, mechanical and electrical systems.

Home inspector. A professional who examines a home for anything that is broken, unsafe or in need of replacement. The inspector also checks if the home has had any major problems in the past.

Home insurance premium. The amount homeowners pay on a monthly or annual basis for home or property insurance.

Household budget. A monthly plan that tracks household income and expenses to make sure household members are living within their means and meeting their savings and investment goals.

Insurance broker. A professional who can help homeowners choose and buy different types of insurance, including property insurance, life and disability insurance and mortgage loan insurance.

Inspection. An evaluation of the home in which a professional inspector determines the current condition of the home and its systems.

Interest. The cost of borrowing money. Interest is usually paid to the lender in regular installments along with repayment of the principal (that is, the amount of the original loan).

Interest rate. The rate used to calculate how much a borrower has to pay a lender for the use of the money being loaned to them.

Land registration. A system to record legal interests in land, including ownership and disposition of land.

Land surveyor. A professional who surveys a property in order to provide a land survey (or "certificate of location"). If the seller doesn't have a survey, or if it's more than five years old, the buyer will likely need to hire a surveyor before they can get a mortgage. A real estate agent usually helps coordinate the survey with the seller.

Lender. A bank, credit union, or finance company that loans people money to buy a home.

Lien. A claim against a property by another person or company for money owed by the owner or previous owner.

Listing. A list of information about a home that is currently on the market.

Loan application. An initial statement of a borrower's personal and financial information, which is used to review a request for credit.

Loan-to-Value (LTV) ratio. A lending risk assessment ratio that lenders examine before approving a mortgage loan. The LTV ratio is calculated as the amount of the mortgage loan divided by the appraised value of the property, expressed as a percentage.

Lock (Lock in). A commitment obtained from a lender assuring a particular interest rate or feature for a definite time period. During the term of the lock commitment, the borrower is protected from interest rate increases.

Lump sum prepayment. An extra payment that is made to reduce the principal balance of a mortgage, with or without a penalty. Lump sum payments can help borrowers save on interest costs and pay off their mortgage sooner.

Manufactured home. A single-family home that is built in a factory and then transported to a chosen location and placed onto a foundation.

Maturity date. The last day of the term of a mortgage. The mortgage loan must either be paid in full, renegotiated or renewed on this day.

Mobile home. A home that is built in a factory and transported to the place where it will be occupied. While mobile homes are usually placed permanently in one location, they can be moved again later if desired.

Modular home. A single-family home that is built in a factory and typically shipped to a location in two or more sections (or "modules") to be assembled onsite.

Mortgage. A loan given by a lender to a buyer to help with the purchase of a home or property. The mortgage loan is usually repaid in regular payments that generally include both the principal and interest.

Mortgage approval (or "commitment letter"). A written notification from a lender to a borrower that says a mortgage loan of a specific amount is approved under specific terms and conditions.

Mortgage broker. A professional who works with many different lenders to find a mortgage that best suits the needs of the borrower

Mortgage life insurance. Insurance that protects the family of a borrower by paying off the mortgage if the borrower dies.

Mortgage loan insurance premium. The amount homebuyers have to pay to insure their mortgage against default if their down payment is less than 20% of the purchase price. Premiums can typically be paid separately or included in the regular mortgage payments to the lender.

Mortgage loan processor. An individual who performs clerical and support duties during the mortgage loan process, including the receipt, collection, and distribution of information common for the processing or underwriting of a residential mortgage loan, and communicating with a consumer to obtain the information necessary for the processing or underwriting of a loan.

Mortgage payment. A regularly scheduled payment that usually includes both the loan principal and the interest.

Multiple Listing Service (MLS). The MLS is a database that includes all available homes for sale in a particular area.

Net worth. The total financial worth of a person, calculated by subtracting liabilities (everything the person owes) from assets (everything the person owns).

Offer to purchase. A written contract that sets out the terms and conditions under which a buyer agrees to buy a home. If the offer is accepted by the seller, it becomes a legally binding agreement.

Ongoing costs. The monthly expenses that come with owning a home, including mortgage payments, property taxes, home insurance, utilities, ongoing maintenance and repairs.

Open house. A set period of time when potential buyers can come to look at a house that's for sale without an appointment.

Payment schedule. The schedule that borrowers agree to follow to pay back their mortgage loan. In most schedules, mortgage payments are made weekly, every two weeks or once a month. Borrowers should talk to their lender to see all possible options.

Power of sale. A provision that gives a lender the power to sell a property if the borrower defaults on their mortgage. The ownership of the property changes hands after the sale is completed.

Prepayment options. The ability for borrowers to make extra payments, increase their payments or pay off their mortgage early without incurring a penalty.

Prepayment penalty. A fee charged by the lender if borrowers pay more money on their mortgage than the prepayment option allows.

Prequalification. Some lenders start with an application, some begin with a conversation. Your credit report may be pulled and you will discuss finances (debit, income, and assets) with your mortgage lender. Your lender will then provide you an estimate for a mortgage for which you may qualify.

Principal. The amount a person borrows for a loan (not including the interest). Property (or home) insurance: Insurance that protects the owners in case their home or building is damaged or destroyed by fire or other hazards listed in the policy.

Private Mortgage Insurance (PMI). The monthly insurance payment a lender must pay if the down payment is less than 20 percent of the sale prices.

Property taxes. Taxes that are charged by the municipality based on the value of the home. In some cases, the lender will collect property taxes as part of the borrower's mortgage payments and then pay the taxes to the municipality on the borrower's behalf.

Purchase agreement. A written agreement between the buyer and the seller stating the terms and conditions of a sale or exchange of property.

Real estate. Property consisting of buildings and/or land.

Real estate agent (or "real estate broker"). A professional who acts as an intermediary between the seller and buyer of a property. They help the buyer find a home, make an offer and negotiate the best price.

Reserve fund. A sum of money put aside by a condominium corporation for the repair or replacement of common elements such as the roof, windows, boiler, hallway carpets and other common assets and areas.

Row house (or "townhouse"). A row house is one of several similar single-family homes that are joined side by side and share common walls.

Security. Also called "collateral." Property that is pledged to guarantee a loan or other obligation that can be claimed by the lender if a loan isn't repaid. With a mortgage, the home being purchased is used as security for the loan.

Semi-detached home. A home that is attached to another home on one side.

Single, detached home. A free-standing home (that is, not attached to any other homes on either side) intended to be occupied by a single family.

Survey (or "certificate of location"). A document that shows the legal boundaries and measurements of a property, specifies the location of any buildings and states whether anyone else has the right to cross over the property for a specific purpose.

Sustainable neighborhood. A neighborhood that meets the needs of the residents while also protecting the environment.

Title. A document that gives the holder legal ownership of a property.

Title insurance. An insurance policy that insures against defects in the title to the property. The cost of the policy is usually a function of the value of the property and is often paid by the purchaser and/or the seller. There are two types of policies: a Lender's Policy protecting the lender; and an Owner's Policy protecting the borrower/new owner.

Total debt service (TDS) ratio. The percentage of a person or household's gross monthly income that goes to pay the mortgage principal and interest, property taxes and heating costs, plus all other debt obligations such as car payments, personal loans or credit card debt. To qualify for a mortgage, it is recommended that the borrower's TDS ratio not exceed 40 percent.

Townhouse (or "row house"). A townhouse is one of several similar single-family homes that are joined side by side and share common walls.

Underwriting. The decision to make a loan to a potential homebuyer is based on credit, employment, assets, and other factors.

Variable interest rate mortgage. A mortgage where the interest rate fluctuates based on the current market conditions. The payments will generally remain the same, but the amount of each payment that goes toward the principal or the interest on the loan changes as interest rates fluctuate.

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