THA

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# HOMEBUYER *Readiness* BLUEPRINT

YOUR STEP-BY-STEP ROADMAP TO CONFIDENT, INFORMED HOMEOWNERSHIP

EDUCATE | PREPARE | PURCHASE | PROSPER

KNOWLEDGE.
CONFIDENCE.
FREEDOM.
LEGACY.

The tools, strategies, and resources you need to turn your homeownership goals into reality.

TOOLS. STRATEGIES. RESOURCES. YOUR KEY TO HOME.

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**Buying a Home: Where Do I Start?**

**The THA Homebuyer Readiness Blueprint™**

***Inside the Mortgage Machine™***

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**"Built by a mortgage operations professional who has worked every stage of the loan process — from application to underwriting to closing."**

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# INTRODUCTION

## WHY THIS BLUEPRINT EXISTS

Most first-time homebuyers begin the process emotionally.

They:

- scroll real estate apps
- attend open houses
- picture furniture layouts
- start mentally moving into homes they haven't purchased yet

But very few buyers truly understand:

**what happens INSIDE the mortgage process.**

And that lack of understanding often creates:

- stress
- confusion
- delays
- preventable denials
- financial mistakes
- failed transactions

The THA Homebuyer Readiness Blueprint™ was designed differently.

This guide was built from real-world experience across:
✓ loan origination support
✓ processing
✓ underwriting
✓ closing
✓ post-closing operations

This Blueprint helps buyers understand:

- how underwriting thinks
- how lenders evaluate risk
- why documents matter
- what delays closings
- how to avoid common mistakes
- what to realistically expect during the mortgage process

Because:

**knowledge sharpens execution.**

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## BEFORE YOU APPLY

**Preparing for Homeownership**

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## SECTION 1

## UNDERSTANDING HOW MORTGAGE LENDING REALLY WORKS

Mortgage lending is not simply:

**"getting approved for a house."**

It is:

**a structured financial risk evaluation process.**

When you apply for a mortgage, the lender is evaluating:

- your financial stability

- repayment ability
- documentation consistency
- overall risk profile

Mortgage lending is heavily regulated and documentation-driven.

Every document submitted must support:
✓ eligibility
✓ compliance
✓ repayment ability
✓ program guidelines

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**THA INSIDE TIP™**

Mortgage approval is not based on emotions. It is based on documentation, consistency, and risk evaluation.

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## SECTION 2

## UNDERSTANDING UNDERWRITING

Underwriting is the detailed financial investigation stage of the mortgage process.

The underwriter's role is to determine:

**"Can this borrower realistically repay this mortgage, and does this loan meet guidelines?"**

Underwriters review:
✓ credit
✓ income
✓ employment
✓ assets

✓ debts
✓ property value
✓ documentation consistency

Underwriters are trained to identify:

- inconsistencies
- undisclosed debt
- unstable income
- documentation gaps
- financial risk

They do NOT approve loans based on emotions.

They approve loans based on:

- documentation
- guidelines
- stability
- consistency

**The 4 C's of Underwriting**

| Category | What It Means |
|---|---|
| Credit | Your history of managing debt |
| Capacity | Your ability to afford the payment |
| Capital | Your available funds and reserves |
| Collateral | The value of the property securing the loan |

SECTION 3

## THE 4 C's OF UNDERWRITING

Mortgage underwriting primarily focuses on:

**The 4 C's.**

| Category | What It Means |
|---|---|
| Credit | Your financial behavior |
| Capacity | Your ability to repay |
| Capital | Your available assets |
| Collateral | The property securing the loan |

## CREDIT

### Your Financial Reputation

Your credit report tells lenders:

- how you manage debt
- how consistently you pay bills
- how risky you may be as a borrower

Mortgage lenders typically pull:

**a Tri-Merge Credit Report.**

This combines:

- Equifax
- Experian
- TransUnion

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## CAPACITY

**Can You Afford the Mortgage?**

This is where:

**Debt-to-Income Ratio (DTI)**

becomes important.

Underwriters compare:

- your income
  against
- your monthly debt obligations

to determine:

**whether the mortgage payment is realistically affordable.**

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**Example of DTI**

| Monthly Income | Monthly Debt |
|---|---|
| $7,000 | $2,800 |

DTI = 40%

Your DTI may include:

- car payments

- student loans
- credit cards
- personal loans
- future mortgage payment

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**CAPITAL**

**Your Financial Strength**

Underwriters review:

- checking accounts
- savings accounts
- retirement accounts
- reserves
- down payment funds
- closing cost funds

This is why:

**bank statements matter so much.**

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**LARGE DEPOSITS**

**Why Underwriters Ask Questions**

Example:
Your paycheck is normally:

- $2,500 biweekly

But underwriting sees:

- a random $9,000 deposit

Now the underwriter must determine:

- Where did it come from?
- Is it borrowed?
- Is it gift funds?
- Is it undocumented income?

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**Common Acceptable Large Deposits**

| Deposit Type | Documentation Needed |
|---|---|
| Payroll Bonus | Paystub |
| Tax Refund | IRS documentation |
| Gift Funds | Gift letter |
| Sale of Vehicle | Bill of sale |
| Transfer Between Accounts | Transfer trail |

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**GIFT FUNDS**

Many first-time buyers receive:

- family assistance
- gift funds
- down payment help

That is completely normal.

However:

**gift funds must be documented properly.**

Typical requirements include:
✓ signed gift letter
✓ donor information
✓ proof donor had funds
✓ proof transfer occurred

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## COLLATERAL

### The Property Matters Too

The lender is not only approving YOU.

They are also evaluating:

**the property itself.**

This is called:

**collateral review.**

The lender wants to confirm:

- the home is worth the price
- the home meets program standards
- the property is safe and marketable

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## THE APPRAISAL

An appraisal determines:

**the market value of the property.**

The appraiser compares:

- similar homes
- neighborhood values
- property condition
- recent sales

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**Common Appraisal Issues**

| Issue | Possible Result |
|---|---|
| Low Appraisal | Renegotiation needed |
| Repairs Required | Delayed closing |
| Health/Safety Concerns | Additional inspections |
| Missing Comparables | Value dispute |

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**SECTION 4**

**UNDERSTANDING CREDIT**

Many first-time buyers think:

“As long as I have a decent credit score, I’m fine.”

But mortgage credit is far more detailed than most people realize.

Mortgage lenders review:
✓ payment history
✓ credit utilization
✓ collections

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✓ inquiries
✓ overall debt management

When you apply for a mortgage, the lender typically pulls:

**a Tri-Merge Credit Report.**

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**SECTION 5**

**TRI-MERGE CREDIT REPORTS EXPLAINED**

Mortgage lenders typically pull:

**a Tri-Merge Credit Report.**

This combines data from:

- Equifax
- Experian
- TransUnion

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**Example Tri-Merge Report**

| Bureau | Score |
|---|---|
| Experian | 682 |
| Equifax | 701 |
| TransUnion | 667 |

Mortgage lenders usually use:

**the middle score.**

In this example:

**682 would be the qualifying score.**

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**Co-Borrower Credit Scores**

When two borrowers apply together, the lender generally uses:

**the LOWER middle score between both borrowers.**

Example:

**Borrower 1:**

| Bureau | Score |
|---|---|
| Experian | 720 |
| Equifax | 715 |
| TransUnion | 705 |

Middle score = 715

**Borrower 2:**

| Bureau | Score |
|---|---|
| Experian | 660 |
| Equifax | 648 |
| TransUnion | 672 |

Middle score = 660

The qualifying score for the loan would typically be:

**660.**

This is extremely important because:

**credit score impacts:**

- loan eligibility
- interest rate
- mortgage insurance
- approval flexibility

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**Why Credit Scores Matter So Much**

Your credit score helps lenders determine:

**how risky the loan may be.**

Generally:

- higher scores = lower risk
- lower scores = higher risk

And higher risk usually means:

- higher interest rates
- higher monthly payments
- higher mortgage insurance costs

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**Example: How Credit Impacts Payment**

| Credit Score | Estimated Interest Rate | Estimated Payment |
|---|---|---|
| 760 | 6.125% | $2,430 |

| Credit Score | Estimated Interest Rate | Estimated Payment |
| --- | --- | --- |
| 700 | 6.625% | $2,561 |
| 640 | 7.500% | $2,797 |

*Example based on hypothetical $400,000 loan.*

That’s potentially:

**hundreds of dollars per month difference.**

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**SECTION 6**

**HOW CREDIT IMPACTS INTEREST RATES & MORTGAGE INSURANCE**

Higher credit scores generally mean:
✓ lower interest rates
✓ lower mortgage insurance
✓ lower monthly payments

Lower credit scores may result in:
❌ higher rates
❌ higher PMI/MIP
❌ stricter approval requirements

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**Example Interest Rate Comparison**

| Credit Score | Estimated Rate | Estimated Payment |
| --- | --- | --- |
| 760 | 6.125% | $2,430 |

| Credit Score | Estimated Rate | Estimated Payment |
|---|---|---|
| 700 | 6.625% | $2,561 |
| 640 | 7.500% | $2,797 |

*Hypothetical example based on $400,000 loan.*

---

**Mortgage Insurance & Credit Scores**

Many first-time buyers don't realize:

**your credit score also affects mortgage insurance pricing.**

For conventional loans:

- stronger credit often means lower PMI
- weaker credit often means higher PMI

Example:

| Credit Score | Estimated PMI |
|---|---|
| 760 | Lower |
| 680 | Moderate |
| 620 | Higher |

Which means:

**lower credit can impact BOTH:**

- the interest rate
  AND
- the mortgage insurance payment.

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**What Hurts Credit During Mortgage Approval?**

**Common issues include:**

❌ Late payments
❌ High credit card balances
❌ Maxed-out cards
❌ Collections
❌ Excessive inquiries
❌ New debt

**CREDIT UTILIZATION EXPLAINED**

Credit utilization measures:

**how much of your available credit you are using.**

**Example**

| Credit Limit | Balance | Utilization |
|---|---|---|
| $10,000 | $9,200 | 92% |

Even if payments are made on time…
that high balance may still lower the score because:

**utilization is too high.**

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**Mortgage Tip:**

**Keep credit card balances LOW before applying.**

Many lenders prefer utilization:

**below 30%.**

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**Collection Accounts & Mortgage Approval**

Many buyers ask:

"Do collections automatically stop me from buying a home?"

Not necessarily.

But collections may:

- lower scores
- require explanations
- require payoff
- impact loan program eligibility

Especially:

- federal debt
- tax liens
- judgments

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**The Truth About Credit Repair During Mortgage Approval**

Be VERY careful making major credit moves while already in process.

Sometimes:

- paying off accounts
- closing accounts
- disputing accounts

can temporarily impact scores or delay underwriting.

Always:

**talk to your lender BEFORE making major credit changes.**

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**HARD INQUIRIES & NEW DEBT**

Many buyers don’t realize:

**opening new credit can impact approval.**

Example:
You apply for:

- a new car
- furniture financing
- a credit card

Now:

- your credit is pulled again
- debt ratios may change
- scores may change

- approval may change

This is why lenders say:

**“Do not make major financial changes during escrow.”**

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**SECTION 7**

**DEBT-TO-INCOME RATIO (DTI) EXPLAINED**

**One of the MOST Important Numbers in Mortgage Lending**

Many first-time homebuyers focus heavily on:

- credit scores
- down payment
- interest rates

But one of the BIGGEST factors in mortgage approval is:

**Debt-to-Income Ratio (DTI).**

DTI helps lenders determine:

**whether your monthly debt obligations are realistically manageable based on your income.**

Simply put:
DTI answers the question:

“Can this borrower comfortably afford this mortgage payment along with their existing debts?”

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**WHAT IS DTI?**

**DTI = Debt-to-Income Ratio**

DTI compares:
✓ your monthly income
against
✓ your monthly debt obligations

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**SIMPLE FORMULA**

$$DTI = \frac{Monthly\ Debt}{Gross\ Monthly\ Income} \times 100$$

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**IMPORTANT:**

**DTI Uses GROSS Income**

Mortgage lenders use:

**gross monthly income**

which means:

**income BEFORE taxes.**

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**Example**

| Income Type | Amount |
|---|---|
| Annual Salary | $84,000 |
| Gross Monthly Income | $7,000 |

This borrower earns:

**$7,000/month gross income.**

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**WHAT COUNTS AS MONTHLY DEBT?**

Lenders typically include:
✓ car payments
✓ student loans
✓ credit card minimum payments
✓ personal loans
✓ child support/alimony
✓ future mortgage payment

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**Example Monthly Debts**

| Debt Type | Monthly Payment |
|---|---|
| Car Payment | $550 |
| Student Loan | $300 |
| Credit Cards | $125 |
| Personal Loan | $200 |
| Future Mortgage Payment | $2,600 |

Total Monthly Debt:

**$3,775**

---

**DTI CALCULATION EXAMPLE**

Borrower monthly income:

**$7,000**

Monthly debt:

**$3,775**

$DTI = \frac{\$3{,}775.00}{\$7{,}000.00} \times 100 = 53.9\%$

DTI:

**approximately 54%.**

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**WHY DTI MATTERS**

DTI helps lenders determine:
✓ affordability
✓ repayment ability
✓ financial stress risk
✓ loan eligibility

Higher DTI may indicate:

**greater financial risk.**

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## FRONT-END VS BACK-END DTI

There are TWO major DTI calculations.

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## FRONT-END DTI

### Housing Ratio

Measures ONLY:

**housing-related expenses.**

This includes:
✓ principal & interest
✓ property taxes
✓ homeowners insurance
✓ HOA dues
✓ mortgage insurance

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## FRONT-END DTI FORMULA

$$Front\ End\ DTI = \frac{Housing\ Payment}{Gross\ Monthly\ Income} \times 100$$

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### Example

| Item | Amount |
|---|---|
| Gross Monthly Income | $8,000 |
| Housing Payment | $2,400 |

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$$Front\ End\ DTI = \frac{\$2,400.00}{\$8,000.00} \times 100$$

Front-End DTI: **30%.**

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**BACK-END DTI**

**Total Debt Ratio**

This is the MOST important DTI calculation.

It includes:
✓ housing payment
PLUS
✓ all monthly debts

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**BACK-END DTI FORMULA**

$$Back\ End\ DTI = \frac{Total\ Monthly\ Debt}{Gross\ Monthly\ Income} \times 100$$

---

**Example**

| Item | Amount |
|---|---|
| Mortgage Payment | $2,400 |
| Car Payment | $550 |
| Student Loan | $300 |

| Item | Amount |
|---|---|
| Credit Cards | $250 |

Total Debt:

**$3,500**

Gross Income:

**$8,000**

$$Back\ End\ DTI = \frac{\$3{,}500.00}{\$8{,}000.00} \times 100 = 43.75\%$$

Back-End DTI:

**approximately 44%.**

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**TYPICAL DTI RANGES**

| DTI Range | General Interpretation |
|---|---|
| Under 36% | Strong |
| 37%–43% | Moderate |
| 44%–50% | Higher Risk |
| Above 50% | More difficult approval |

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**IMPORTANT:**

**DTI Limits Vary By Loan Program**

Different programs allow:

- different DTI thresholds
- different compensating factors
- different underwriting flexibility

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**GENERAL PROGRAM GUIDELINES**

| Loan Type | Typical DTI Flexibility |
|---|---|
| Conventional | Moderate |
| FHA | More Flexible |
| VA | Flexible with residual income review |
| USDA | Moderate |

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**FHA DTI FLEXIBILITY**

FHA loans may sometimes allow:

**higher DTIs**

because FHA underwriting may consider:
✓ stronger compensating factors
✓ cash reserves
✓ payment history
✓ residual income

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**VA LOANS & RESIDUAL INCOME**

VA loans evaluate:

**BOTH DTI and residual income.**

Residual income measures:

**how much money remains AFTER bills are paid.**

This is one reason VA loans are often considered:

**more holistic underwriting programs.**

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**WHAT DOES NOT ALWAYS COUNT IN DTI?**

Some expenses typically NOT included:
❌ utilities
❌ cell phone bills
❌ internet
❌ groceries
❌ gas
❌ streaming subscriptions

HOWEVER: buyers SHOULD still budget for these expenses realistically.

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**THA INSIDE TIP™**

Just because an expense doesn't count toward DTI doesn't mean it won't impact your real-life affordability.

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**CREDIT CARDS & DTI**

Mortgage lenders generally use:

**minimum monthly payments**

reported on the credit report.

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**Example**

| Credit Card Balance | Actual Balance | Minimum Payment Used for DTI |
|---|---|---|
| $9,000 | High Balance | $180 minimum payment |

Even if:

- the borrower pays more monthly

underwriting usually uses: **the required minimum payment.**

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**STUDENT LOANS & DTI**

Student loans are one of the BIGGEST first-time buyer concerns.

Different loan programs may calculate student loans differently.

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**Common Student Loan Methods**

| Situation | Possible Calculation |
|---|---|
| Payment on Credit Report | Actual payment used |
| Deferred Loans | Estimated payment may apply |
| Income-Driven Plans | Actual payment may sometimes be used |

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**IMPORTANT:**

**Deferred Does NOT Always Mean Ignored**

Many buyers mistakenly believe:

“My student loans are deferred, so they don’t count.”

That is often:

**FALSE.**

Many programs still require:

**estimated monthly obligations.**

---

**CO-SIGNED DEBT**

If your name appears on:
✓ car loans
✓ student loans
✓ personal loans

they may still count against your DTI:

**even if someone else makes the payment.**

Some programs may allow exclusion IF:
✓ proper documentation exists.

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## BUYING A CAR BEFORE CLOSING

### Why It Can Destroy Approval

This is one of the MOST common mortgage mistakes.

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### Example Scenario

Borrower approved with:

**43% DTI**

Then finances:

- new vehicle
- $850 monthly payment

New DTI: **52%**

Result:
❌ approval may change
❌ loan may fail guidelines
❌ closing may delay or cancel

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### THA INSIDE TIP™

A pre-approval is not permission to change your financial profile.

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## HOW TO IMPROVE DTI

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### STRATEGIES

✓ Pay down revolving debt
✓ Avoid new debt
✓ Increase documented income
✓ Reduce monthly obligations
✓ Pay off installment loans strategically

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### IMPORTANT:

**DO NOT Randomly Pay Off Debt Without Talking to Your Lender**

Sometimes:

- paying off debt helps
  BUT
- sometimes cash reserves become more important.

Mortgage strategy matters.

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### DTI VS REAL-LIFE AFFORDABILITY

One of the BIGGEST mistakes buyers make:

**focusing only on approval.**

Approval does NOT always equal = **comfort.**

**Example**

Buyer technically qualifies for:

**$3,400/month payment**

BUT after:

- daycare
- groceries
- gas
- savings
- utilities

the payment may feel:

**financially stressful.**

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## REAL-LIFE AFFORDABILITY EXAMPLE

| Expense | Monthly Cost |
|---|---|
| Mortgage | $3,000 |
| Utilities | $400 |
| Childcare | $900 |
| Groceries | $700 |
| Gas | $350 |
| Car Insurance | $250 |

Total:

**$5,600/month**

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### THA INSIDE TIP™

Approval tells you what you CAN buy. Budgeting tells you what you SHOULD buy.

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### COMPENSATING FACTORS

Sometimes lenders allow:

**higher DTIs**

when borrowers have:
✓ strong reserves
✓ high credit scores
✓ stable employment
✓ significant savings
✓ low payment shock

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### WHAT IS PAYMENT SHOCK?

Payment shock measures:

**how much your housing payment increases.**

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**Example**

| Current Rent | Future Mortgage |
|---|---|
| $1,200 | $3,000 |

Large increases may create:

**additional underwriting scrutiny.**

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## COMMON FIRST-TIME BUYER DTI MISTAKES

❌ Buying cars before closing
❌ Maxing out credit cards
❌ Ignoring student loan impact
❌ Assuming approval equals comfort
❌ Opening new credit lines
❌ Co-signing debt during process

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## FINAL TAKEAWAYS

Debt-to-Income Ratio is one of the MOST important factors in mortgage approval because it helps lenders evaluate:
✓ affordability
✓ repayment ability
✓ financial stability
✓ overall loan risk

Understanding DTI helps buyers:

**make smarter financial decisions BEFORE entering the mortgage process — not during a crisis in underwriting.**

## SECTION 8

## HOUSEHOLD INCOME VS QUALIFYING INCOME

### One of the Most Confusing Parts of the Mortgage Process

This is one of the biggest areas of confusion for first-time homebuyers — especially when:

- down payment assistance programs
- grants
- affordable housing programs
- Housing Finance Agency (HFA) loans

are involved.

Many buyers assume:

"If my paycheck qualifies me for the loan, I'm automatically eligible for the assistance program too."

That is NOT always true.

Because:

**household income and qualifying income are NOT the same thing.**

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## QUALIFYING INCOME

### Income Used to Approve the Mortgage

Qualifying income is:

**the income the lender uses to determine whether you can repay the mortgage.**

This income is used to calculate:

- Debt-to-Income Ratio (DTI)
- loan eligibility
- borrowing capacity
- monthly affordability

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**Common Types of Qualifying Income**

| Income Type | May Be Used for Qualification? |
|---|---|
| Salary/Wages | Yes |
| Hourly Income | Yes |
| Overtime | Sometimes |
| Bonus Income | Sometimes |
| Commission Income | Sometimes |
| Self-Employment Income | Yes (with documentation) |
| Rental Income | Sometimes |
| Social Security | Yes |
| Child Support | Optional if disclosed |

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## Important Truth About Qualifying Income

Not ALL income automatically counts.

The lender must determine whether the income is:

- stable
- likely to continue
- properly documented
- acceptable under guidelines

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## Example: Overtime Income

Borrower earns:

- $70,000 base salary
  PLUS
- overtime income

Underwriting may require:

**a 2-year history of overtime**

to determine:

- consistency
- likelihood of continuation

---

## Example: Bonus Income

A borrower may receive:

- annual bonuses

But underwriting may ask:

- Is the bonus guaranteed?
- Is there a history of receipt?
- Is it likely to continue?

This is why:

**documentation matters so much.**

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## SELF-EMPLOYMENT INCOME

Self-employed income is one of the most detailed income reviews in mortgage lending.

Underwriters may review:

- tax returns
- business returns
- profit & loss statements
- business bank statements
- expense analysis

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### Important Self-Employment Reality

Many buyers think:

"I made $150,000 in my business."

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But mortgage underwriting focuses on:

**taxable income after expenses.**

Meaning:

- large write-offs may reduce qualifying income

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## HOUSEHOLD INCOME

### Income Used for Assistance Program Eligibility

Household income is different.

This is:

**the total income earned by household occupants,**

even if:

- they are NOT on the mortgage.

This becomes especially important for:

- down payment assistance programs
- grants
- affordable housing programs
- Housing Finance Agency programs

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### Why Household Income Exists

Affordable housing programs are designed to help:

**income-eligible households.**

So programs often evaluate:

- total household earnings
  NOT
- just borrower qualifying income.

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**Household Income Example**

A borrower applies alone:

- income = $68,000

But the borrower lives with:

- spouse earning $55,000

The lender may qualify the mortgage using:

**only the borrower's $68,000 income**

BUT:
the assistance program may calculate:

**household income as $123,000.**

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**Why This Matters**

A borrower may:
✓ qualify for the mortgage

BUT:
❌ exceed the income limit for assistance programs.

This surprises many first-time buyers.

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**Common Household Income Sources Reviewed**

| Income Source | May Count Toward Household Income? |
|---|---|
| Borrower Income | Yes |
| Non-Borrowing Spouse Income | Often |
| Adult Household Occupants | Sometimes |
| Overtime | Often |
| Bonus Income | Often |
| Part-Time Income | Sometimes |

---

**Program Rules Vary**

Each assistance program may define household income differently.

Some programs count:

- only occupying adults

Others count:

- all adult household members

Some programs use:

- current annualized income

Others use:

- prior-year tax returns

---

**Example of Annualized Household Income**

Borrower currently earns:

- $35/hour
- full-time

Program may annualize: **current earnings**

Example:

| Hourly Rate | Hours | Annualized Income |
|---|---|---|
| $35 | 40/week | Approximately $72,800 |

Even if:

- prior-year income was lower

the program may use:

**current projected household income.**

---

**Why Buyers Get Confused**

Many buyers hear:

“You qualify for the loan.”

But later hear:

“You exceed the assistance program income limit.”

This feels contradictory…

…but it’s because:

**mortgage qualification and program eligibility are separate reviews.**

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## QUALIFYING INCOME VS HOUSEHOLD INCOME

| Category | Qualifying Income | Household Income |
|---|---|---|
| Purpose | Mortgage approval | Program eligibility |
| Who Is Counted | Borrowers on loan | Household occupants |
| Used For | DTI & loan approval | Assistance eligibility |
| Underwriting Focus | Repayment ability | Income eligibility |

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### Important DPA Reality

Many assistance programs have:

**maximum income limits.**

Example:

| Household Size | Maximum Income |
|---|---|
| 1 Person | $82,000 |
| 2 People | $94,000 |
| 3 People | $108,000 |

If household income exceeds the limit:

**the borrower may become ineligible for assistance.**

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### COMMON FIRST-TIME BUYER MISTAKES

❌ Assuming all income counts automatically
❌ Assuming household income and qualifying income are the same
❌ Forgetting non-borrowing household occupants may matter
❌ Not disclosing household information accurately

---

### KEY TAKEAWAY

Understanding the difference between:

**qualifying income**

AND

**household income**

is extremely important when using:

- down payment assistance
- grants
- affordable housing programs

Because:

**you may qualify for the mortgage…**

but not necessarily qualify for the subsidy program.

And that distinction can significantly impact:

- affordability
- available assistance
- program eligibility
- homebuying strategy.

---

**SECTION 9**

**AMI & MFI EXPLAINED**

**AMI = Area Median Income**

**MFI = Median Family Income**

**Why These Terms Matter in Affordable Housing & Down Payment Assistance Programs**

When first-time buyers begin exploring:

- down payment assistance

- grants
- affordable housing programs
- Housing Finance Agency (HFA) programs

they often hear terms like:

**“AMI”**

and

**“MFI”**

without understanding what they actually mean.

These terms are VERY important because:

**they help determine whether you qualify for many assistance programs.**

---

**WHAT IS AMI?**

**AMI = Area Median Income**

Area Median Income is:

**the midpoint income level for a geographic area.**

This income data is typically calculated annually by:

**HUD (U.S. Department of Housing and Urban Development).**

---

**SIMPLE EXPLANATION**

Imagine lining up every household in a city:

- from lowest income
  to
- highest income

The income exactly in the middle:

**is the Area Median Income (AMI).**

---

**WHY AMI EXISTS**

AMI helps affordable housing programs determine:

- who may need housing assistance
- who qualifies for subsidy programs
- income eligibility thresholds

---

**WHAT IS MFI?**

**MFI = Median Family Income**

MFI is similar to AMI and is often used interchangeably.

However:
MFI specifically focuses on:

**family income levels within an area.**

Many mortgage and housing programs use:

- AMI
  OR

- MFI

to establish:

**income limits.**

---

**IMPORTANT:**

**AMI and MFI are NOT your personal income.**

They are:

**benchmark income measurements for a geographic area.**

---

## WHY THIS MATTERS TO HOMEBUYERS

Many assistance programs are designed for:

- low-income households
- moderate-income households
- workforce housing buyers
- first-time homebuyers

So programs use:

**percentages of AMI or MFI**

to determine eligibility.

---

**Example of AMI Percentage Limits**

| Program Limit | Meaning |
|---|---|
| 50% AMI | Lower-income households |
| 80% AMI | Moderate-income households |
| 120% AMI | Workforce-income households |

---

**Example: Understanding AMI Percentages**

Imagine:
Area Median Income for your area:

**$100,000**

Program allows:

**up to 80% AMI**

**Calculation:**
**$100,000 × 80%**

**$80,000 maximum household income.**

If your household income exceeds:

**$80,000**

you may become:
❌ ineligible for that program.

---

## AMI CHANGES BY LOCATION

One important thing buyers should understand:

**AMI varies by county and city.**

Example:
AMI in:

- Nashville
  may differ from:
- rural Tennessee counties

Because:

- cost of living
- wages
- housing markets

vary significantly by location.

---

## HOUSEHOLD SIZE MATTERS TOO

AMI limits also typically adjust based on:

**household size.**

Example:

| Household Size | Maximum Income at 80% AMI |
|---|---|
| 1 Person | $68,000 |

| Household Size | Maximum Income at 80% AMI |
|---|---|
| 2 People | $77,000 |
| 3 People | $86,000 |
| 4 People | $95,000 |

Larger households generally receive:

**higher income limits.**

---

**IMPORTANT FIRST-TIME BUYER CONFUSION**

Many buyers think:

“I don’t make low income, so I won’t qualify for assistance.”

That is NOT always true.

Some programs allow:

- moderate-income buyers
- workforce buyers
- middle-income buyers

to qualify depending on:

- program structure
- location
- household size

## HOW AMI IMPACTS PROGRAM ELIGIBILITY

AMI can affect:
✓ down payment assistance
✓ grants
✓ affordable housing programs
✓ tax credit programs
✓ reduced mortgage insurance programs

## DIFFERENT PROGRAMS USE DIFFERENT LIMITS

Example:

| Program | Income Limit |
|---|---|
| Program A | 80% AMI |
| Program B | 100% AMI |
| Program C | 120% AMI |

A borrower may:
✓ qualify for one program
❌ not qualify for another

even in the SAME city.

**AMI / MFI**

Used for:

**program eligibility.**

Determines:

- whether your income falls within allowable limits.

---

**Example**

Buyer income:

**$92,000**

Loan qualification:
✔ borrower qualifies for mortgage

BUT:
Program income limit:

**$85,000**

Result:
❌ borrower may not qualify for the assistance program.

---

**IMPORTANT REALITY**

You can:
✔ qualify for the mortgage
BUT
❌ exceed AMI limits for assistance.

This is one of the most common surprises for first-time buyers.

---

**HOW LENDERS CALCULATE INCOME FOR AMI**

Programs may use:

- current income
- annualized earnings
- household income
- projected earnings

Some programs may count:
✓ overtime
✓ bonuses
✓ non-borrowing spouse income
✓ part-time income

---

**WHY AMI MATTERS IN TODAY'S MARKET**

As housing affordability becomes more challenging:

**AMI-based programs are becoming increasingly important.**

These programs help:

- increase affordability
- reduce upfront costs
- expand access to homeownership

especially for:

- first-time buyers
- workforce households
- moderate-income families

---

**KEY TAKEAWAYS**

**AMI and MFI are:**

✓ income benchmarks
✓ based on geographic areas
✓ adjusted by household size
✓ used for program eligibility

They are NOT:
❌ your mortgage approval amount
❌ your personal credit score
❌ your monthly payment amount

Understanding AMI and MFI helps buyers:

**better understand which affordable housing and assistance programs they may qualify for BEFORE beginning the homebuying process.**

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**SECTION 10**

**UNDERSTANDING LOAN TYPES**

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## CONVENTIONAL LOANS

Conventional loans are:

**not government-backed.**

They are commonly backed by:

- Fannie Mae
- Freddie Mac

### Key Features

✓ As low as 3% down
✓ Flexible property types
✓ PMI removable later
✓ Stronger credit often preferred

### Important Conventional Terms

**PMI (Private Mortgage Insurance)**

Required when:

**down payment is under 20%.**

PMI protects:

- the lender
  NOT
- the borrower

**FHA LOANS**

**One of the Most Popular Loan Programs for First-Time Homebuyers**

FHA loans are:

**government-insured mortgages backed by the Federal Housing Administration (FHA), a division of HUD (U.S. Department of Housing and Urban Development).**

Contrary to popular belief:

**FHA does NOT lend money directly to borrowers.**

Instead:
the FHA provides insurance to approved mortgage lenders.

This insurance reduces risk to lenders and allows them to offer more flexible qualification requirements.

**Why FHA Loans Were Created**

FHA loans were designed to help increase access to homeownership for borrowers who may not qualify for conventional financing.

This includes:
✓ First-time homebuyers
✓ Buyers with limited savings
✓ Buyers with moderate credit scores
✓ Buyers with higher debt-to-income ratios
✓ Buyers recovering from past credit challenges

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**FHA Key Features**

| Feature | FHA Loan |
|---|---|
| Minimum Down Payment | 3.5% |
| Credit Flexibility | Higher |
| DTI Flexibility | Often Higher |
| Gift Funds Allowed | Yes |
| Seller Contributions Allowed | Yes |
| Assumable Mortgage | Yes |
| Government Insured | Yes |

**FHA Down Payment Requirements**

Many buyers are surprised to learn:

**FHA does not require 20% down.**

The minimum down payment is generally:

| Credit Score | Minimum Down Payment |
|---|---|
| 580+ | 3.5% |
| Below 580* | May require 10% |

*Lender overlays may apply.

**FHA Mortgage Insurance Removal Rules**

**If Down Payment Is LESS Than 10%**

For most first-time buyers using:

**3.5% down**

FHA mortgage insurance remains:

**for the LIFE OF THE LOAN.**

**FHA MIP remains for all 30 years unless the loan is refinanced.**

**If Down Payment Is 10% OR MORE**

Mortgage insurance is not permanent.

Instead:

**FHA MIP remains for 11 years.**

After:

**11 years**

the annual MIP is automatically removed.

---

**VA LOANS EXPLAINED**

**One of the Most Powerful Mortgage Benefits Available in America**

VA loans are:

**government-guaranteed mortgage loans backed by the U.S. Department of Veterans Affairs (VA).**

The VA loan program was created to help:

- veterans
- active-duty military members
- eligible National Guard and Reserve members

- qualifying surviving spouses

achieve homeownership with more favorable financing terms.

**IMPORTANT:**

**The VA Does NOT Lend Money**

Similar to FHA:
the VA does not directly lend money.

Instead:

**the VA guarantees a portion of the loan.**

This guarantee reduces risk for lenders and allows them to offer:
✓ no down payment options
✓ competitive interest rates
✓ flexible qualification standards

**Why VA Loans Are So Valuable**

Many mortgage professionals consider VA loans:

**the best mortgage product available.**

Why?

Because VA loans often provide:
✓ 100% financing
✓ no monthly mortgage insurance
✓ flexible underwriting
✓ competitive interest rates

✓ limited closing costs
✓ assumable loan options

**WHO MAY QUALIFY?**

Eligibility is generally based on:

- military service
- length of service
- discharge status

**Common Eligible Borrowers**

| Category | Potential Eligibility |
|---|---|
| Active-Duty Military | Yes |
| Veterans | Yes |
| National Guard | Often |
| Reserves | Often |
| Certain Surviving Spouses | Yes |

**CERTIFICATE OF ELIGIBILITY (COE)**

Before obtaining a VA loan, borrowers typically must obtain a:

**Certificate of Eligibility (COE).**

The COE confirms:

**VA loan eligibility.**

Most lenders can obtain this electronically.

VA LOAN KEY FEATURES

| Feature | VA Loan |
|---|---|
| Down Payment | 0% Possible |
| Monthly Mortgage Insurance | None |
| Government Guarantee | Yes |
| Assumable | Yes |
| Gift Funds Allowed | Yes |
| Seller Contributions Allowed | Yes |

**THE 0% DOWN PAYMENT ADVANTAGE**

One of the biggest benefits:

**eligible borrowers may purchase a home with no down payment.**

**NO MONTHLY MORTGAGE INSURANCE**

Unlike:

- FHA
- Conventional loans with PMI

VA loans generally do not require:

**monthly mortgage insurance.**

**Why This Matters**

Monthly mortgage insurance can easily cost:

| Loan Amount | Potential Monthly MI |
|---|---|
| $250,000 | $100–$200 |
| $350,000 | $150–$300 |
| $450,000 | $200–$400 |

With VA:

**that monthly expense is typically eliminated.**

**VA FUNDING FEE**

While VA loans do not have monthly mortgage insurance, most VA loans require:

**a VA Funding Fee.**

The funding fee helps sustain:

**the VA Home Loan Program.**

*Funding fee percentages are subject to VA guidelines and may change.*

**Can the Funding Fee Be Financed?**

Yes.

Most borrowers choose to:

**finance the funding fee into the loan amount.**

This reduces upfront cash requirements.

**FUNDING FEE EXEMPTIONS**

Some borrowers are exempt from paying the funding fee.

Common exemptions may include:
✓ Veterans receiving VA disability compensation
✓ Eligible surviving spouses
✓ Certain Purple Heart recipients on active duty

**THA INSIDE TIP™**

Many eligible veterans do not realize they qualify for a funding fee exemption. Always ask your lender to verify exemption status.

**VA RESIDUAL INCOME**

**One of the Most Unique Features of VA Lending**

Most loan programs focus heavily on:

**Debt-to-Income Ratio (DTI).**

VA loans evaluate:

**DTI AND Residual Income.**

**What Is Residual Income?**

Residual income measures:

**how much money remains after major obligations are paid.**

VA wants to ensure borrowers still have:
money available for:

✓ food
✓ transportation
✓ utilities
✓ family expenses
✓ emergencies

**Example**

Monthly Gross Income:

**$8,000**

Monthly Obligations:

- mortgage
- car payment
- credit cards
- student loans

Remaining income:

**Residual Income**

**Why Residual Income Matters**

Two borrowers may have:
the exact same DTI.

Yet:
one borrower may have significantly more money left over each month.

VA underwriting recognizes:

**real-world affordability.**

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**THA INSIDE TIP™**

A VA loan isn't simply a mortgage product; it's one of the strongest financial benefits earned through military service. Understanding the full value of the program can save eligible borrowers tens of thousands of dollars over the life of the loan.

---

## USDA LOANS

**One of the Most Overlooked Homebuyer Programs Available**

USDA loans are:

**government-guaranteed mortgage loans backed by the United States Department of Agriculture (USDA).**

The USDA Home Loan Program was created to help increase homeownership opportunities in:

- rural communities
- suburban communities
- underserved areas

Many first-time homebuyers mistakenly believe:

"USDA loans are only for farms."

**That is FALSE.**

In reality, many suburban communities across the country qualify for USDA financing.

**IMPORTANT:**

**USDA Does NOT Lend Money**

Similar to:

- FHA
- VA

the USDA does not directly lend money.

Instead:

**the USDA guarantees a portion of the loan.**

This guarantee reduces lender risk and allows approved lenders to offer:
✓ 100% financing
✓ flexible qualification standards
✓ competitive interest rates

**Why USDA Loans Were Created**

The USDA program was designed to:
✓ encourage homeownership
✓ strengthen rural communities
✓ increase affordable housing opportunities
✓ help moderate-income households purchase homes

**USDA KEY FEATURES**

| Feature | USDA Loan |
|---|---|
| Down Payment | 0% Possible |
| Government Guarantee | Yes |
| Mortgage Insurance | Reduced |
| Income Limits | Yes |
| Geographic Restrictions | Yes |
| Primary Residence Only | Yes |

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**THE 0% DOWN PAYMENT BENEFIT**

One of the biggest advantages of USDA:

**eligible buyers may purchase a home with no down payment.**

**USDA ELIGIBLE AREAS**

Many buyers assume:

"I live near a city, so I won't qualify."

Not necessarily.

Many suburban communities qualify.

**USDA Eligibility Is Based On Property Location**

The property itself must be in:

**a USDA-eligible area.**

Borrower eligibility alone is not enough.

**USDA OCCUPANCY REQUIREMENTS**

USDA loans are intended for:

**primary residences only.**

Borrowers generally must:
✓ occupy the property
✓ establish residency shortly after closing

**Properties Typically Eligible**

| Property Type | Eligible? |
|---|---|
| Single-Family Residence | Yes |
| New Construction | Yes |
| Existing Home | Yes |
| Investment Property | No |
| Vacation Home | No |

**USDA INCOME LIMITS**

Unlike FHA and Conventional financing:

**USDA loans have income limitations.**

USDA was created to assist:

**low- to moderate-income households.**

**IMPORTANT:**

**USDA Uses Household Income**

This is where many buyers become confused.

USDA often evaluates:

**household income**

NOT just:

**qualifying income.**

**Why This Matters**

A borrower may:
✓ qualify for the mortgage

BUT:
❌ exceed USDA household income limits.

**USDA GUARANTEE FEE**

**USDA's Version of Mortgage Insurance**

USDA loans do not have:

**traditional PMI.**

Instead, they have:

**a Guarantee Fee.**

**USDA Has Two Components**

**Upfront Guarantee Fee**

Collected at closing.

Most borrowers choose to:

**finance this into the loan.**

**Annual Guarantee Fee**

Collected monthly as part of the mortgage payment.

**Example Monthly Payment**

| Component | Amount |
|---|---|
| Principal & Interest | $1,850 |
| Taxes | $250 |
| Insurance | $125 |
| USDA Annual Fee | $75 |

Total:

**$2,300**

**THA INSIDE TIP™**

Many first-time buyers automatically assume FHA is their best option. However, if a property qualifies for USDA financing, the combination of 0% down payment and lower mortgage insurance costs can sometimes make USDA one of the most affordable mortgage options available.

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**SECTION 11**

## MORTGAGE INSURANCE EXPLAINED

**One of the Most Misunderstood Costs in Homeownership**

Many first-time homebuyers hear terms like:

- PMI
- MIP
- Funding Fee
- Guarantee Fee

and immediately assume:

**"Mortgage insurance protects me."**

That is one of the biggest misconceptions in mortgage lending.

## THE TRUTH ABOUT MORTGAGE INSURANCE

Mortgage insurance primarily protects:

**the lender**

NOT:

**the borrower.**

Mortgage insurance exists because lenders are taking on additional risk when borrowers:

- make smaller down payments

- have limited equity
- finance a larger percentage of the home's value

The less money a borrower contributes toward the purchase, the greater the lender's potential risk. Mortgage insurance helps offset that risk.

**SIMPLE EXAMPLE**

Imagine:

Purchase Price:

**$300,000**

Buyer Down Payment:

**3%**

Buyer's Investment:

**$9,000**

Loan Amount:

**$291,000**

Because the borrower has relatively little equity, the lender assumes greater risk if foreclosure occurs. Mortgage insurance helps protect the lender from some of that loss.

**TYPES OF MORTGAGE INSURANCE**

| Type | Loan Program | Purpose |
|---|---|---|
| PMI | Conventional | Protects lender |
| MIP | FHA | Protects FHA-insured lender |
| Funding Fee | VA | Supports VA Loan Program |
| Guarantee Fee | USDA | Supports USDA Loan Program |

**CONVENTIONAL PMI**

**Private Mortgage Insurance**

PMI applies to most Conventional loans when:

**less than 20% is put down.**

**GOOD NEWS:**

**PMI Can Usually Be Removed**

Once the loan reaches sufficient equity, PMI may be removed. This is one of the biggest advantages of Conventional financing.

**PMI REMOVAL RULES**

**Borrower Requested Removal**

Generally available when:

**the loan reaches 80% LTV**

and all servicing requirements are met.

**Automatic Removal**

Typically occurs when:

**the loan reaches 78% LTV**

based on the original amortization schedule.

**PMI Removal Timeline Example**

| Original Loan | PMI Removal Point |
|---|---|
| $300,000 | Approximately $240,000 balance (80% LTV) |

**THA INSIDE TIP™**

Many homeowners pay PMI longer than necessary because they never request removal after reaching sufficient equity.

**FHA MORTGAGE INSURANCE**

**Mortgage Insurance Premium (MIP)**

FHA loans require:

**two forms of mortgage insurance.**

**Upfront Mortgage Insurance Premium (UFMIP)**

Typically:

**1.75%**

of the base loan amount. Most borrowers finance this into the loan.

**Annual Mortgage Insurance Premium**

Collected monthly as part of the mortgage payment.

**Example FHA Payment**

| Component | Monthly Amount |
|---|---:|
| Principal & Interest | $1,850 |
| Taxes | $300 |
| Insurance | $125 |
| FHA MIP | $175 |

Total Payment:

**$2,450**

**FHA MIP REMOVAL RULES**

This is where FHA differs significantly from Conventional financing.

**Less Than 10% Down**

Most FHA borrowers use:

**3.5% down.**

In this scenario:

**MIP remains for the life of the loan.**

**10% or More Down**

Mortgage insurance remains:

**11 years.**

After 11 years: the annual MIP automatically terminates.

**FHA MIP Duration Chart**

| Down Payment | MIP Duration |
|---|---|
| Less than 10% | Life of Loan |
| 10% or Greater | 11 Years |

**VA FUNDING FEE**

VA loans do NOT require:

**monthly mortgage insurance.**

This is one of the biggest advantages of VA financing. Instead, many VA borrowers pay:

**a one-time Funding Fee.**

**Why the Funding Fee Exists**

The Funding Fee helps sustain:

**the VA Home Loan Program.**

This allows future veterans to continue accessing:

- 100% financing
- flexible underwriting
- competitive rates

**Funding Fee Exemptions**

Some borrowers may be exempt, including:
✓ Veterans receiving disability compensation
✓ Certain surviving spouses
✓ Certain Purple Heart recipients

**USDA GUARANTEE FEE**

USDA loans do not have traditional PMI. Instead, they have:

**a Guarantee Fee.**

**USDA Fee Structure**

USDA has:

**Upfront Guarantee Fee**

Typically financed into the loan.

**Annual Guarantee Fee**

Collected monthly.

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## COMPARISON OF MORTGAGE INSURANCE TYPES

| Feature | Conventional PMI | FHA MIP | VA Funding Fee | USDA Guarantee Fee |
|---|---|---|---|---|
| Monthly Cost | Yes | Yes | No | Yes |
| Upfront Fee | No | Yes | Yes | Yes |
| Removable | Yes | Limited | N/A | No |
| Based on Credit Score | Yes | No | No | No |
| Protects Borrower | No | No | No | No |

## WHICH LOAN HAS THE LOWEST MORTGAGE INSURANCE COST?

Generally:

**Lowest**

🥇 VA

**Often Lower**

🥈 USDA

**Varies by Credit**

🥉 Conventional

**Often Highest Long-Term Cost**

🏅 FHA

However, every borrower scenario is different.

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**THA INSIDE TIP™**

The cheapest loan today is not always the cheapest loan long-term.

Understanding how mortgage insurance works can save homeowners thousands of dollars over the life of their mortgage.

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**SECTION 12**

**AFFORDABILITY STRATEGY**

Homeownership affordability is about MORE than approval.

Buyers must also consider:
✓ maintenance
✓ utilities
✓ taxes
✓ insurance
✓ HOA dues
✓ emergency savings

**Just Because You Qualify Doesn't Mean You Should**

One of the biggest misconceptions in homebuying is:

"If the lender approved me for it, I can afford it."

Not necessarily.

Mortgage approval and affordability are two completely different things.

A lender determines:
✓ what you may qualify for

Only YOU can determine:
✓ what fits comfortably within your lifestyle.

**THE APPROVAL TRAP**

Many buyers become excited when they hear:

"Congratulations! You're approved up to $500,000."

But approval limits are not financial recommendations.

They are simply:

**the maximum amount a lender may be willing to lend based on program guidelines.**

That does not mean:
✓ you'll be comfortable
✓ you'll have financial flexibility
✓ you'll still be able to save
✓ you'll still be able to travel
✓ you'll still be able to handle emergencies

**THA INSIDE TIP™**

Approval tells you what you CAN buy.

**Budgeting tells you what you SHOULD buy.**

THE TRUE COST OF HOMEOWNERSHIP

Many first-time buyers focus only on:

**the mortgage payment.**

But homeownership includes many additional expenses.

**Monthly Housing Cost Components**

| Expense | Included in Mortgage Payment? |
|---|---|
| Principal | Yes |
| Interest | Yes |
| Property Taxes | Usually |
| Homeowners Insurance | Usually |
| Mortgage Insurance | Usually |
| HOA Dues | Sometimes |
| Utilities | No |
| Maintenance | No |
| Repairs | No |

**Example**

Mortgage Payment:

**$2,400**

Many buyers assume: "My housing cost is $2,400."

Actual monthly expenses may look more like:

| Expense | Monthly Cost |
|---|---|
| Mortgage Payment | $2,400 |
| Electric | $175 |
| Water | $75 |
| Internet | $85 |
| Lawn Care | $75 |
| Maintenance Savings | $200 |

Total:

**$3,010/month**

That's a significant difference.

**AFFORDABILITY VS APPROVAL**

| Category | Approval | Affordability |
|---|---|---|
| Determined By | Lender | Buyer |
| Uses Guidelines | Yes | No |
| Considers Lifestyle | No | Yes |
| Considers Savings Goals | No | Yes |
| Considers Vacations | No | Yes |
| Considers Childcare | No | Yes |

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## PAYMENT SHOCK

One of the biggest risks in homeownership is: **payment shock.**

Payment shock occurs when: your new housing payment is significantly higher than your current housing expense.

**Example**

| Current Rent | New Mortgage |
|---|---|
| $1,200 | $2,800 |

Increase:

**$1,600/month**

This is a major adjustment.

Even if approved, buyers should carefully evaluate whether this increase feels sustainable.

## THA INSIDE TIP™

Underwriters evaluate whether you can make the payment.

You need to evaluate whether you WANT to make the payment every month for the next 30 years.

## WHAT HAPPENS IF YOU DON'T SAVE?

Homeownership surprises happen.

Examples include:
✓ HVAC replacement
✓ roof repairs
✓ water heater replacement
✓ appliance failures
✓ plumbing repairs

**Example Emergency Costs**

| Item | Estimated Cost |
|---|---|
| HVAC System | $6,000–$12,000 |
| Roof Replacement | $8,000–$20,000+ |
| Water Heater | $1,000–$2,500 |
| Refrigerator | $800–$3,000 |
| Plumbing Repair | $500–$5,000+ |

**DON'T BECOME HOUSE POOR**

"House poor" occurs when: too much income goes toward housing.

This often results in:
❌ no savings
❌ credit card debt
❌ financial stress
❌ inability to handle emergencies

**SIGNS YOU MAY BE BUYING TOO MUCH HOUSE**

- 🚩 No emergency savings remaining
- 🚩 Using all available cash for closing
- 🚩 Depending on overtime to make payments
- 🚩 No room for maintenance costs
- 🚩 Significant payment shock
- 🚩 Unable to continue retirement contributions

**THE AFFORDABILITY SWEET SPOT**

The ideal home purchase is often not: **the maximum house you can qualify for.** Instead, it is the home that allows you to:

✓ make payments comfortably

✓ maintain savings

✓ handle emergencies

✓ enjoy life

✓ continue building wealth

**AFFORDABILITY WORKSHEET**

Ask yourself:

- **Can I comfortably make this payment?**
- **Can I save after closing?**
- **Can I handle a major repair?**
- **Can I continue investing for retirement?**
- **Can I survive a temporary income interruption?**

If the answer is "no" to several of these questions: you may need to reconsider your target price range.

**THA INSIDE TIP™**

The goal of homeownership is not simply to get approved.

**The goal is sustainable homeownership.**

The best mortgage is not the largest mortgage you can obtain.

The best mortgage is the one that allows you to build wealth while still sleeping comfortably at night.

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## SECTION 13

## THE TRUTH ABOUT PRE-APPROVALS

### One of the Most Misunderstood Terms in Mortgage Lending

Many homebuyers believe:

"I got pre-approved, so I'm approved."

This is one of the biggest misconceptions in the mortgage process.

A pre-approval is:

**an important milestone.**

But it is NOT:

**final loan approval.**

---

## WHAT IS A PRE-APPROVAL?

A pre-approval is a lender's preliminary determination that you may qualify for a mortgage based on information and documentation reviewed at the beginning of the loan process.

Think of a pre-approval as:

**the starting line, not the finish line.**

A pre-approval helps determine:
✓ estimated loan amount
✓ estimated monthly payment
✓ potential loan programs
✓ initial eligibility

---

## WHY PRE-APPROVALS MATTER

Pre-approvals help:

✓ buyers understand their purchasing power
✓ Realtors show homes within an appropriate price range
✓ sellers view offers more seriously
✓ lenders identify potential issues early

---

## WHAT IS REVIEWED DURING A PRE-APPROVAL?

Depending on the lender, a pre-approval may include review of:

✓ credit report
✓ income
✓ employment
✓ assets
✓ debt obligations
✓ down payment funds

---

### Common Documentation Requested

| Document | Purpose |
|---|---|
| Pay Stubs | Verify income |
| W-2s | Verify employment history |
| Tax Returns | Verify earnings |
| Bank Statements | Verify assets |
| Driver's License | Verify identity |

---

### THA INSIDE TIP™

A strong pre-approval is built on documentation; not estimates, assumptions, or verbal information.

---

## PRE-QUALIFICATION VS PRE-APPROVAL

Many people use these terms interchangeably.

They are NOT the same thing.

---

**PRE-QUALIFICATION**

A pre-qualification is typically:

✓ quick
✓ informal
✓ based on borrower-provided information
✓ limited documentation

---

**PRE-APPROVAL**

A pre-approval is typically:

✓ documentation-based
✓ credit reviewed
✓ income reviewed
✓ asset review completed
✓ much stronger than pre-qualification

---

**Comparison Chart**

| Feature | Pre-Qualification | Pre-Approval |
|---|---|---|
| Credit Reviewed | Sometimes | Yes |
| Documents Reviewed | Limited | Yes |
| Income Verified | No | Usually |
| Assets Reviewed | No | Usually |
| Strong Offer Position | Limited | Yes |

## WHAT A PRE-APPROVAL DOES NOT MEAN

A pre-approval does NOT mean:

❌ underwriting has approved the loan
❌ the appraisal has been completed
❌ title work has been reviewed
❌ final employment has been verified
❌ final approval has been issued

## WHY LOANS ARE STILL DENIED AFTER PRE-APPROVAL

This surprises many buyers.

A borrower can be pre-approved and later experience:

✓ additional underwriting conditions
✓ revised income calculations
✓ appraisal problems
✓ title issues
✓ employment changes
✓ debt increases

## REAL-LIFE EXAMPLE

Borrower receives a pre-approval for:

**$400,000**

Two weeks later:

- finances a new vehicle
- adds an $850 monthly payment

Result:

✓ DTI increases
✓ approval may change
✓ loan may require re-underwriting

---

**THA INSIDE TIP™**

A pre-approval is not permission to make major financial changes.

---

**WHAT HAPPENS AFTER PRE-APPROVAL?**

Once a property is identified and a contract is accepted:

The loan enters a much deeper review process.

---

**Mortgage Process Flow**

Pre-Approval
↓
Home Shopping
↓
Contract Accepted
↓
Loan Processing
↓

Underwriting
↓
Conditions
↓
Clear to Close
↓
Closing

---

**UNDERWRITING IS THE REAL DECISION MAKER**

Many buyers mistakenly think: "The Loan Officer approved me."

In reality:

**underwriting makes the final lending decision.**

The Loan Officer:
✓ structures the file
✓ gathers documentation
✓ recommends programs

The Underwriter:
✓ reviews risk
✓ verifies documentation
✓ determines eligibility
✓ issues final approval

---

**WHAT CAN CHANGE AFTER PRE-APPROVAL?**

Several things can impact approval.

**Employment Changes**

Examples:

❌ quitting a job
❌ changing employers
❌ moving from salary to commission

---

**Credit Changes**

Examples:

❌ opening new credit cards
❌ financing furniture
❌ purchasing a vehicle
❌ missing payments

---

**Asset Changes**

Examples:

❌ large undocumented deposits
❌ significant withdrawals
❌ moving funds without documentation

---

**Property Issues**

Examples:

❌ low appraisal

❌ property condition concerns
❌ title defects

## HOW LONG IS A PRE-APPROVAL GOOD FOR?

Most pre-approvals are not permanent.

Typical validity periods:

| Item | Typical Timeframe |
| --- | --- |
| Pre-Approval Letter | 60–90 Days |
| Credit Report | Approximately 120 Days |
| Income Documents | May require updates after 30–60 Days |

Lenders often require updated documentation if a transaction extends beyond these timeframes.

## WHAT MAKES A STRONG PRE-APPROVAL?

The strongest pre-approvals typically include:

✓ reviewed credit
✓ reviewed income
✓ reviewed assets
✓ reviewed employment
✓ documented down payment funds
✓ discussion of loan options

## QUESTIONS BUYERS SHOULD ASK THEIR LENDER

Before relying on a pre-approval, ask:

✓ Has my income been reviewed?
✓ Have my assets been reviewed?
✓ Are there any known concerns?
✓ What could potentially delay approval?
✓ What should I avoid doing before closing?

---

**COMMON PRE-APPROVAL MYTHS**

**MYTH:**

"I am fully approved."

**TRUTH:**

You are not fully approved until underwriting completes its review and issues final approval.

---

**MYTH:**

"My payment cannot change."

**TRUTH:**

Interest rates, taxes, insurance, and other factors may change before closing.

---

**MYTH:**

"I can make major purchases now."

**TRUTH:**

Financial changes can affect loan eligibility.

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---

**MYTH:**

"The Loan Officer made the final decision."

**TRUTH:**

Final approval comes from underwriting.

---

**THA INSIDE TIP™**

Think of a pre-approval like receiving a boarding pass for a flight.

You're cleared to enter the airport and head toward the gate.

**Underwriting is the final security checkpoint before you can board the plane.**

---

## SECTION 14

## HOW TO CHOOSE THE RIGHT LOAN TEAM

### Your Homebuying Team Matters More Than You Think

Many first-time homebuyers spend weeks researching:

✓ neighborhoods

✓ school districts

✓ home features

✓ interest rates

But spend very little time evaluating the professionals guiding them through the transaction.

The reality is:

**The quality of your loan team can significantly impact your homebuying experience.**

A strong team can:

✓ identify issues early

✓ prevent delays

✓ solve problems quickly

✓ communicate effectively

✓ keep your transaction on track

A weak team can lead to:

❌ missed deadlines

❌ poor communication

❌ financing surprises

❌ contract extensions

❌ failed transactions

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## THE HOMEBUYING DREAM TEAM

Your transaction typically involves:

**Realtor**

Helps you:
✓ find a home
✓ negotiate terms
✓ navigate contracts
✓ manage inspections
✓ coordinate transaction milestones

---

**Loan Officer**

Helps you:

✓ determine affordability
✓ select loan programs
✓ obtain pre-approval
✓ structure financing
✓ navigate loan options

---

**Loan Processor**

Helps you:

✓ collect documentation
✓ coordinate conditions
✓ prepare the file for underwriting
✓ keep documentation current

---

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**Underwriter**

Helps determine:

✓ loan eligibility
✓ risk assessment
✓ final approval
✓ conditions required for closing

---

**Title Company / Closing Agent**

Helps:

✓ verify ownership
✓ prepare closing documents
✓ facilitate closing
✓ record ownership transfer

---

**THA INSIDE TIP™**

Most borrowers only know their Realtor and Loan Officer.

Behind every successful closing is an entire operations team working behind the scenes.

---

**WHAT MAKES A GREAT LOAN OFFICER?**

A great Loan Officer does more than quote rates.

They should:

✓ educate
✓ communicate

✓ prepare you for underwriting
✓ explain documentation requirements
✓ identify potential issues early
✓ understand loan products
✓ understand DPA programs (if applicable)

---

## Questions to Ask a Loan Officer

### Communication

✓ How often will I receive updates?
✓ Who should I contact with questions?
✓ Will I have direct access to you?

---

### Experience

✓ How long have you been originating loans?
✓ How many first-time buyers do you assist annually?
✓ What loan programs do you specialize in?

---

### Process

✓ What could delay my approval?
✓ What documentation should I prepare now?
✓ What should I avoid during the process?

---

### Down Payment Assistance

✓ Are you approved with local DPA programs?
✓ How many DPA loans have you closed recently?
✓ What additional timelines should I expect?

## RED FLAGS

🚩 Cannot clearly explain loan programs

🚩 Rarely responds to calls or emails

🚩 Promises approval before reviewing documents

🚩 Focuses only on rates

🚩 Cannot explain the underwriting process

## WHAT MAKES A GREAT REALTOR?

A Realtor does far more than unlock doors.

They should:

✓ educate buyers
✓ negotiate effectively
✓ understand contracts
✓ identify transaction risks
✓ communicate proactively
✓ coordinate parties
✓ advocate for your interests

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## Questions to Ask a Realtor

### Experience

✓ How many homes did you help buyers purchase last year?
✓ How many first-time homebuyers do you work with?
✓ What areas do you specialize in?

---

### Negotiation

✓ How do you handle appraisal issues?
✓ How do you handle inspection negotiations?
✓ How do you handle multiple-offer situations?

---

### Communication

✓ How frequently will we communicate?
✓ What's your preferred communication method?
✓ How quickly do you typically respond?

---

### Team Coordination

✓ Do you regularly work with lenders?
✓ How do you help keep transactions on track?
✓ What happens if problems arise?

---

## RED FLAGS

🚩 Difficult to reach

🚩 Pressures you to make decisions

🚩 Cannot explain contract terms

🚩 Doesn't communicate proactively

🚩 Unfamiliar with local market conditions

---

## THE MOST IMPORTANT QUESTION

Before selecting either professional, ask:

"What does your process look like from contract to closing?"

Great professionals have:

✓ systems
✓ structure
✓ communication plans
✓ clear expectations

---

## THE TEAMWORK FACTOR

The strongest transactions involve:

✓ communication
✓ transparency
✓ preparation

✓ accountability
✓ teamwork

---

**THE BUYER'S ROLE**

Even the best team cannot succeed without buyer participation.

Successful buyers:

✓ submit documents quickly
✓ communicate changes immediately
✓ ask questions
✓ avoid financial changes
✓ stay engaged throughout the process

---

**TEAM SCORECARD**

Use this worksheet when interviewing professionals:

| Question | Realtor | Loan Officer |
|---|---|---|
| Communicates Clearly | □ | □ |
| Explains Process Well | □ | □ |
| Responsive | □ | □ |
| First-Time Buyer Experience | □ | □ |
| DPA Knowledge | N/A | □ |
| Strong Reviews | □ | □ |
| Makes Me Comfortable | □ | □ |

---

**THA INSIDE TIP™**

Interest rates matter.

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Homes matter.

Loan programs matter.

But one of the most overlooked factors in homeownership success is choosing professionals who communicate well, educate consistently, and prepare you for what happens inside the mortgage machine.

The best loan teams don't just help you buy a home.

**They help you get to the closing table with confidence.**

---

**SECTION 15**

**THE INITIAL LOAN APPLICATION PROCESS**

**Where Your Mortgage Journey Officially Begins**

For many homebuyers, the mortgage process begins with a simple online application.

What most borrowers don't realize is that this application becomes the foundation for every decision made throughout the mortgage process.

The mortgage application is commonly referred to as:

**The Uniform Residential Loan Application (URLA)**

or

**The 1003 Loan Application**

The URLA was developed by Fannie Mae and Freddie Mac and is used throughout the mortgage industry to collect information needed to evaluate a borrower's eligibility for financing.

---

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## WHAT IS THE PURPOSE OF THE LOAN APPLICATION?

The application tells the lender:

✓ who you are
✓ where you work
✓ how much you earn
✓ what assets you have
✓ what debts you owe
✓ what property you are purchasing
✓ what type of loan you are requesting

Think of the application as:

**The Story of Your Financial Life**

The lender uses this information to determine whether you meet the requirements for a mortgage loan.

---

## WHAT INFORMATION IS COLLECTED?

The application collects several categories of information.

---

### Personal Information

Examples include:

✓ Full legal name
✓ Date of birth
✓ Social Security Number
✓ Marital status
✓ Current address
✓ Previous addresses

**Employment Information**

Lenders need to understand:

✓ where you work
✓ how long you've worked there
✓ how you're paid
✓ whether your income is stable
Examples:
✓ Salary
✓ Hourly
✓ Commission
✓ Bonus
✓ Self-Employed
✓ Military
✓ Retirement

---

**Income Information**

Examples include:

✓ Base salary
✓ Hourly earnings
✓ Overtime
✓ Bonus income
✓ Commission income
✓ Self-employment income
✓ Retirement income
✓ Social Security income
✓ Rental income

---

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**Asset Information**

Assets help demonstrate:

✓ ability to close
✓ financial stability
✓ reserve funds
Examples:
✓ Checking accounts
✓ Savings accounts
✓ Retirement accounts
✓ Investment accounts
✓ Gift funds
✓ Stocks and bonds

---

**Debt Information**

The application collects information regarding:

✓ Credit cards
✓ Student loans
✓ Auto loans
✓ Personal loans
✓ Existing mortgages
✓ Child support obligations
✓ Alimony obligations

---

**Property Information**

If a property has already been identified, the application includes:

✓ Property address
✓ Purchase price
✓ Down payment amount
✓ Loan amount requested
✓ Property type
✓ Occupancy type

---

**WHAT DOCUMENTS WILL YOU PROVIDE?**

Most lenders will request documentation shortly after application.

---

**Income Documentation**

Common examples:

✓ Most recent pay stubs
✓ W-2s
✓ Tax returns
✓ Business returns (if self-employed)

---

**Asset Documentation**

Examples:

✓ Bank statements
✓ Retirement statements

✓ Investment statements

---

**Identity Documentation**

Examples:

✓ Driver's License
✓ Government-issued ID
✓ Social Security verification (if requested)

---

**WHAT HAPPENS AFTER THE APPLICATION IS SUBMITTED?**

Most borrowers assume the lender immediately approves or denies the loan.

That is NOT how the process works.

---

**The Mortgage Workflow**

Application Submitted
↓
Credit Pulled
↓
Initial Review
↓
Disclosures Issued
↓
Documentation Collected
↓
Processing
↓
Underwriting
↓

Conditions
↓
Clear to Close
↓
Closing

---

**THE CREDIT PULL**

After authorization is provided, the lender typically obtains a:

**Tri-Merge Credit Report**

This report contains data from:

✓ Experian
✓ Equifax
✓ TransUnion

The lender uses this information to:
✓ determine eligibility
✓ evaluate risk
✓ calculate DTI
✓ determine loan program options

---

**AUTOMATED UNDERWRITING SYSTEMS (AUS)**

Most applications are initially evaluated through an Automated Underwriting System.

Examples include:

**Conventional**

Desktop Underwriter (DU)

Loan Product Advisor (LPA)

**FHA**

TOTAL Scorecard

**USDA**

GUS

These systems provide:

✓ eligibility findings
✓ documentation requirements
✓ underwriting recommendations

---

**COMMON APPLICATION MISTAKES**

Many borrowers unintentionally create problems during application.

Examples include:

❌ Forgetting employment information

❌ Understating debt obligations

❌ Omitting assets

❌ Misreporting income

❌ Failing to disclose previous addresses

❌ Estimating figures inaccurately

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**THA INSIDE TIP™**

Never guess on your application.

If you're unsure of a figure, ask your Loan Officer for guidance. Small inaccuracies can create major underwriting headaches later in the process.

---

**WHY HONESTY MATTERS**

The underwriting process verifies nearly everything.

This means:

✓ income is verified
✓ employment is verified
✓ assets are verified
✓ debts are verified
✓ occupancy intentions are verified

Providing accurate information from the beginning helps prevent delays and surprises later.

---

**WHAT SHOULD BORROWERS EXPECT NEXT?**

After application submission, borrowers should generally expect:

✓ a credit review
✓ disclosure package issuance
✓ document requests

✓ discussions regarding loan options
✓ initial qualification review

This is the stage where your Loan Officer begins transforming your application into a complete mortgage file.

---

**THA INSIDE TIP™**

The mortgage application is not simply paperwork.

It is the foundation upon which your entire loan approval is built.

The more accurate, complete, and organized your application is from the beginning, the smoother your journey through underwriting and closing will be.

---

**KEY TAKEAWAYS**

The Initial Loan Application Process is designed to collect information regarding:

✓ employment
✓ income
✓ assets
✓ debts
✓ property information
✓ borrower qualifications

This information becomes the roadmap for your mortgage journey and serves as the starting point for every review that follows inside the mortgage machine.

---

SECTION 16

UNDERSTANDING MORTGAGE DISCLOSURES

Mortgage disclosures are not simply paperwork to sign. They are designed to tell you **what loan you are being offered, what it is expected to cost, and what rights and obligations come with it.**

During the mortgage process, you may receive documents covering:

✓ loan amount and loan type
✓ interest rate
✓ estimated monthly payment
✓ mortgage insurance
✓ closing costs
✓ escrow requirements
✓ servicing information
✓ appraisal rights
✓ credit-related disclosures
✓ borrower and lender responsibilities

THE TWO DISCLOSURES YOU WILL HEAR ABOUT MOST

**Loan Estimate — LE**

Provides an early estimate of your proposed mortgage terms and costs.

**Closing Disclosure — CD**

Provides the final details of the mortgage transaction as you approach closing.

---

WHAT TRIGGERS A LOAN ESTIMATE?

For mortgage transactions covered by TRID, an application is generally considered received once the lender has these six pieces of information:

1. Your name
2. Your income
3. Your Social Security number to obtain credit
4. Property address
5. Estimated property value
6. Loan amount requested

Once all six are received, the lender generally must deliver or mail the Loan Estimate within **three business days**.

**Important**

A lender cannot require you to submit all of your supporting income and asset documentation **before** issuing the Loan Estimate once the six required pieces have been provided.

---

**WHAT SHOULD YOU DO WITH A DISCLOSURE?**

Don't just sign it.

Ask:

- Does the loan amount look correct?
- Is this the loan program I discussed?
- Is my interest rate locked or floating?
- What is my estimated payment?
- How much are my closing costs?
- How much cash may I need to close?
- Are taxes and insurance included?
- Is mortgage insurance included?
- Are there lender credits?
- Are there fees I do not understand?

**THA READI™ TIP:**
Your signature should acknowledge a document—not replace your understanding of it.

---

**SECTION 17**

**HOW TO READ A LOAN ESTIMATE — LE**

The **Loan Estimate**, commonly called the **LE**, is a standardized three-page disclosure that gives you an early look at the mortgage you are considering.

It is one of the best tools you have for understanding and comparing mortgage offers.

---

**PAGE 1 — THE BIG PICTURE**

Page 1 generally shows:

✓ loan amount
✓ interest rate
✓ principal and interest payment
✓ whether the rate can change
✓ prepayment penalty, if applicable
✓ balloon payment, if applicable
✓ estimated taxes and insurance
✓ estimated total monthly payment
✓ estimated closing costs
✓ estimated cash to close

### Start Here

| QUESTION | WHAT TO REVIEW |
|---|---|
| How much am I borrowing? | Loan Amount |
| What is my rate? | Interest Rate |
| Can my rate change? | Loan Terms |
| What is my estimated payment? | Projected Payments |
| How much may I need at closing? | Estimated Cash to Close |

---

## PAGE 2 — WHERE THE MONEY IS GOING

Page 2 breaks down estimated closing costs.

You may see charges for:

### Loan Costs

- lender/origination charges;
- appraisal;
- credit-related services;
- flood certification;
- tax service;
- title-related services; and
- other loan expenses.

### Other Costs

- recording fees;
- transfer taxes;
- prepaid interest;
- homeowners' insurance;
- property taxes;
- initial escrow deposits; and
- other applicable costs.

This page also shows **lender credits**, if applicable.

---

## PAGE 3 — HOW THE LOAN COMPARES

Page 3 provides additional information that can help you evaluate the loan, such as:

- annual percentage rate — APR;
- total interest percentage — TIP;
- lender and loan officer information; and
- other loan calculations.

### INTEREST RATE VS. APR

They are not the same thing.

**Interest Rate**
Primarily reflects the cost of borrowing the principal.

**APR**
Is designed to reflect the interest rate plus certain costs associated with obtaining the loan.

APR can therefore help when comparing certain loan offers—but it is not your actual note rate.

---

## IMPORTANT TRUTH

A Loan Estimate is:

**AN ESTIMATE.**

It is **not**:

❌ final underwriting approval
❌ a guarantee your loan will close
❌ final cash to close
❌ permission to make financial changes
❌ the Closing Disclosure

Receiving an LE means the lender has disclosed the loan it expects to offer based on the information available—not that underwriting has completed.

**THA INSIDE TIP™:**
Never compare lenders by rate alone. Compare **rate + payment + lender fees + credits + cash to close + loan structure.**

---

**SECTION 18**

**WHAT HAPPENS DURING UNDERWRITING**

Underwriting is where your mortgage file moves from:

**"Here is what the borrower told us"**

to:

**"Here is what we can document, verify, and approve."**

The underwriter reviews the borrower, property, and transaction to determine whether the loan meets the applicable mortgage guidelines.

---

## THE UNDERWRITER IS GENERALLY REVIEWING FOUR BIG AREAS

### CREDIT

Can you demonstrate an acceptable history of managing financial obligations?

The underwriter may review:

- credit score;
- payment history;
- outstanding debts;
- collections;
- judgments;
- bankruptcies;
- foreclosures;
- inquiries; and
- newly opened accounts.

### CAPACITY

Can your verified income reasonably support the proposed mortgage and existing obligations?

The lender may review:

- employment;
- salary;
- overtime;
- bonuses;
- commission;
- self-employment;
- rental income;
- Social Security;
- pensions;
- other qualifying income; and
- debt-to-income ratio.

## CAPITAL

Do you have acceptable funds for the transaction?

The lender may evaluate:

- checking and savings;
- investments;
- retirement funds;
- gifts;
- down payment assistance;
- earnest money;
- reserves; and
- the source of significant deposits.

## COLLATERAL

Does the property meet the applicable requirements and adequately support the mortgage?

The lender may review:

- appraisal;
- property type;
- market value;
- condition;
- title;
- insurance; and
- program-specific property requirements.

---

## COMMON UNDERWRITING STAGES

| STAGE | WHAT IS HAPPENING |
|---|---|
| **Initial Review** | Underwriter performs the first full analysis |

| | |
|---|---|
| **Conditional Approval** | Loan is approvable subject to additional requirements |
| **Conditions** | Documents, explanations, or corrections are requested |
| **Conditions Review** | Newly submitted items are analyzed |
| **Property Review** | Appraisal, title, insurance, and related items are reviewed |
| **Final Review** | Remaining requirements are confirmed |
| **Clear to Close** | Underwriting requirements have been substantially satisfied and the file can move toward closing |

**CONDITIONAL APPROVAL IS NOT A DENIAL**

It often means:

**“Based on what we have reviewed, we can proceed if these remaining items are satisfied.”**

That is a normal part of mortgage underwriting.

---

## SECTION 19

## CONDITIONS EXPLAINED

When an underwriter issues a **condition**, the underwriter is asking for something necessary to complete or support the loan decision.

Conditions may require:

✓ additional documentation
✓ updated documentation
✓ clarification
✓ correction of inconsistent information
✓ third-party documentation
✓ satisfaction of a loan-program requirement

## COMMON BORROWER CONDITIONS

### Income

- updated paystubs;
- W-2s;
- tax returns;
- employment verification;
- documentation of bonus or overtime;
- self-employment documentation.

### Assets

- updated bank statements;
- documentation of large deposits;
- gift documentation;
- proof of earnest money;
- evidence of transfer of funds.

### Credit

- explanation of inquiries;
- documentation of recently opened debts;
- proof an account was paid;
- clarification of disputed accounts.

### Property

- homeowners’ insurance;
- appraisal repairs;
- HOA documents;
- title requirements.

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**WHY DID THEY ASK ME FOR THIS AGAIN?**

Because mortgage documents must meet specific requirements.

A document can become unusable because:

- it is too old;
- a page is missing;
- the statement does not identify the account holder;
- it does not cover the required period;
- numbers conflict with another document;
- new information changed the analysis.

**Example**

You submitted a bank statement with pages:

**1 of 6, 2 of 6, 3 of 6, 5 of 6 and 6 of 6.**

Even if Page 4 is blank, the lender may request it.

Why?

Because underwriting needs to know that the complete statement was reviewed.

---

**HOW TO RESPOND TO CONDITIONS**

**DON'T**

Send what you *think* they meant.

**DO**

Read exactly what was requested.

If the request says:

**“Provide all pages of the most recent two months' bank statements for account ending 1234.”**

Provide:

✓ correct account
✓ correct statement period
✓ every page
✓ legible documents

**THA INSIDE TIP™:**
Underwriting conditions are often less about **more paperwork** and more about **closing documentation gaps.**

---

**SECTION 20**

**LARGE DEPOSITS & PAYMENT APP TRANSFERS**

One of the fastest ways to create additional underwriting conditions is to move money around without understanding how mortgage lenders evaluate bank activity.

Your lender isn't simply asking:

**“Do you have enough money?”**

The lender may also need to determine:

**“Where did the money come from?”**

---

WHAT ACTUALLY COUNTS AS A "LARGE DEPOSIT"?

This is important:

**There is not one universal dollar amount.**

A $3,000 deposit might be considered large for one borrower and not another.

The definition depends on the applicable loan program.

**CONVENTIONAL — FANNIE MAE**

For a purchase transaction, Fannie Mae generally defines a large deposit as a **single deposit exceeding 50% of the total monthly qualifying income for the loan.**

**Example**

Total qualifying monthly income:

**$8,000**

50%:

**$4,000**

A single unexplained deposit of:

**$5,500**

would exceed the large-deposit threshold.

---

## CONVENTIONAL — FREDDIE MAC

Freddie Mac also generally uses a **50% of monthly qualifying income** threshold, with additional calculation considerations when certain qualifying assets are used as income.

---

## FHA

FHA uses a different measurement. Under FHA guidance, recent individual deposits exceeding **1% of the property's Adjusted Value** may require documentation.

**Example**

Adjusted Value:

**$350,000**

1%:

**$3,500**

A recent individual deposit of:

**$5,000**

could require sourcing under FHA requirements.

FHA's Adjusted Value generally relates to the applicable value calculation under FHA guidelines; therefore, your lender determines the exact threshold for the transaction.

---

## WHY DOES THE UNDERWRITER CARE?

The underwriter needs to determine whether the deposit represents:

✓ your own money
✓ acceptable gift funds
✓ payroll
✓ tax refund
✓ sale of an asset
✓ transfer from another verified account

—or—

❌ undisclosed borrowed money
❌ a personal loan
❌ funds belonging to someone else
❌ an unacceptable source

Borrowing money for your down payment without disclosing it can create both an **asset problem and an undisclosed debt problem.**

---

## WHAT ABOUT ZELLE, CASH APP, VENMO AND PAYPAL?

These services themselves are not automatically a problem.

The issue is the **underlying transaction.**

**Examples**

**Zelle from Mom — $5,000**

The lender may ask:

Is this a gift?

A loan?

Repayment?

Your own money?

---

**Cash App deposits totaling $4,500**

The lender may ask whether they represent:

- business income;
- repayment;
- transfers;
- borrowed money; or
- another source.

---

**WHAT DOCUMENTS MAY BE REQUESTED?**

Depending on the source:

| SOURCE | POSSIBLE DOCUMENTATION |
|---|---|
| Transfer from your account | Statement showing funds leaving one account and entering the other |
| Sale of vehicle | Bill of sale + proof of ownership + deposit |
| Gift | Gift documentation + evidence of transfer as required |
| Tax refund | Tax return/refund documentation + bank deposit |
| Payroll | Paystub/direct-deposit identification |
| Sale of investments | Brokerage statement + liquidation + deposit |
| Reimbursement | Explanation + supporting evidence |

---

## WHAT IF THE DEPOSIT CANNOT BE SOURCED?

For certain conventional purchase loans, the lender may be able to **exclude the undocumented funds from usable assets** and determine whether enough verified money remains for closing and required reserves. Fannie Mae specifically provides for reducing verified assets by the unsourced large-deposit amount when appropriate.

**Example**

Verified account balance: **$30,000**

Unsourced large deposit: **$6,000**

Usable verified funds could potentially be reduced to:

**$24,000**

If required funds are $26,000, that becomes a problem.

---

**THA INSIDE TIP™:**
**Large deposits are not automatically bad. Undocumented deposits are the problem.**

**BEST RULE DURING THE MORTGAGE PROCESS:**

**Before moving large amounts of money, ask your lender.**

---

## SECTION 21

## VERIFICATION OF EMPLOYMENT — VOE

Your employment is not necessarily verified only once.

Because employment income is often the primary source used to repay the mortgage, lenders may verify it at multiple points.

Employment may be reviewed:

✓ during application
✓ during processing
✓ during underwriting
✓ shortly before closing

---

**TYPES OF EMPLOYMENT VERIFICATION**

**Written VOE**

Your employer provides information about your employment and sometimes earnings.

**Verbal VOE**

The lender independently verifies that you are still employed.

**Electronic VOE**

The lender may use an approved third-party employment database.

**Pay Documentation**

Paystubs, W-2s, tax records, and other documents may support the analysis.

---

**WHY VERIFY EMPLOYMENT AGAIN BEFORE CLOSING?**

Because circumstances can change after underwriting begins.

For example:

You were employed when your file was underwritten on May 1.

Your closing is May 28.

The lender may need to establish that the employment being used to qualify **still exists near closing.**

For Fannie Mae loans using employment income, verbal verification is generally required within **10 business days before the note date**, subject to applicable exceptions and alternative verification methods.

---

**JOB CHANGES ARE NOT AUTOMATICALLY FATAL**

But the lender must determine whether the new employment and income remain eligible.

Potentially significant changes include:

❌ salary → commission
❌ W-2 → self-employed
❌ full-time → part-time
❌ guaranteed hours → variable hours
❌ employer change with different compensation
❌ unpaid leave
❌ resignation

**CALL YOUR LENDER BEFORE MAKING THE CHANGE.**

**THA READI™ TIP:**
Your lender qualified **your income structure**, not simply the fact that you have a job.

---

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SECTION 22

## HOW LONG MORTGAGE DOCUMENTS ARE GOOD FOR

Mortgage underwriting is a **snapshot in time.**

The longer a transaction remains open, the more likely some documents will need to be updated.

But beware of simple internet charts saying:

**“Every paystub expires at exactly 30 days.”**

Mortgage document-age requirements depend on:

- loan program;
- type of document;
- property;
- underwriting method;
- lender requirements; and
- closing date.

---

## COMMON DOCUMENT REFRESHES

| DOCUMENT | WHY IT MAY BE UPDATED |
| --- | --- |
| Paystubs | Confirm current income |
| Bank Statements | Confirm current assets and funds |
| Employment Verification | Confirm employment continues |
| Credit Report | Ensure credit information remains current |
| Appraisal | Ensure collateral valuation remains usable |
| Insurance | Confirm acceptable coverage is effective |
| Income Documentation | Confirm information remains current |

---

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**CREDIT DOCUMENTS**

For conventional loans, many credit and income documents are subject to maximum-age rules measured against the note date.

Rather than memorizing one date, understand the important concept:

**IF YOUR CLOSING IS DELAYED, EXPECT DOCUMENT UPDATES.**

---

**APPRAISALS HAVE THEIR OWN TIMELINES**

For example, under current Fannie Mae guidance, an appraisal used for many transactions must generally have an effective date within **12 months before the note and mortgage date**.

When the original appraisal is more than **four months old but less than 12 months old**, an appraisal update is generally required.

That illustrates why there is no single "everything expires in 120 days" rule.

---

**WHY DID MY PROCESSOR ASK FOR ANOTHER BANK STATEMENT?**

Because when another statement cycle becomes available, it may now be necessary to establish that:

- funds are still available;
- no problematic deposits occurred;
- required reserves remain;
- closing funds have not been spent.

**THA INSIDE TIP™:**
Updated documents aren't necessarily a sign your file has a problem. Sometimes **time itself created the condition.**

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## SECTION 23

## RESERVES EXPLAINED

You may hear your lender say:

**“You need two months of reserves.”**

This does not mean you make two mortgage payments in advance.

**Reserves are eligible financial assets remaining after the mortgage transaction closes.**

## EXAMPLE

Proposed total housing payment:

**$2,500/month**

Required reserves:

**2 months**

**$2,500 × 2 = $5,000**

After paying:

- down payment;
- closing costs; and
- other required funds,

the borrower would need at least **$5,000 in eligible reserve assets** under this example.

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## WHY DO RESERVES MATTER?

Reserves demonstrate additional financial capacity after closing.

They may be particularly important when:

- purchasing an investment property;
- purchasing a second home;
- owning multiple financed properties;
- automated underwriting requires them;
- specific programs require them.

## NOT EVERY ACCOUNT IS TREATED THE SAME

Potential reserve assets may include eligible portions of:

✓ checking
✓ savings
✓ investments
✓ retirement assets
✓ other permitted liquid or qualifying financial assets

The exact amount counted can depend on accessibility and loan-program requirements.

## CASH TO CLOSE VS. RESERVES

### CASH TO CLOSE

Money needed **at closing**.

**RESERVES**

Eligible money remaining **after closing**.

**Example**

Available verified assets: **$40,000**

Cash needed to close: **$32,000**

Remaining:

**$8,000**

If the borrower needs $5,000 in reserves:

✓ Reserve requirement appears satisfied.

---

**THA READI™ TIP:**
Don't drain every account just because you have enough to close. **Getting into the house and being financially prepared to own the house are two different goals.**

---

**UNDER CONTRACT**

**SURVIVING THE TRANSACTION SUCCESSFULLY**

Getting an accepted offer is exciting.

But your financial profile still needs to survive the journey from:

**CONTRACT → CLOSING**

**SECTION 24**

**WHAT NOT TO DO DURING ESCROW**

Your mortgage approval is based on a specific financial profile.

Until closing, assume your lender may continue evaluating:

✓ credit
✓ debts
✓ income
✓ employment
✓ assets
✓ funds to close

A significant change can require the loan to be underwritten again.

---

**DO NOT FINANCE THE NEW HOUSE BEFORE YOU OWN IT**

That includes:

❌ furniture financing
❌ appliance financing
❌ "12 months same as cash" offers
❌ new credit cards
❌ Buy Now, Pay Later accounts

**Why?**

Because a new monthly payment can increase your debt-to-income ratio.

**Example**

Original qualifying DTI:

**47%**

New furniture payment:

**$350/month**

That new obligation could increase DTI enough to affect eligibility.

---

**DON'T BUY THE NEW CAR YET**

Even if the dealer tells you:

**“Your first payment isn't due for 60 days.”**

The debt exists now.

Your lender generally cares about the obligation—not when you happen to make the first payment.

---

**DON'T MISS A PAYMENT**

A late payment during the mortgage process can create serious credit and underwriting consequences.

Continue paying:

✓ rent
✓ credit cards
✓ auto loans
✓ student loans

✓ personal loans
✓ other obligations

on time.

---

**DON'T MOVE MONEY RANDOMLY**

Transferring $20,000 from:

Savings → Cash App → Checking → Brokerage → Checking

may turn money you already had into a documentation puzzle.

Keep the paper trail simple.

---

**DON'T CO-SIGN**

When you co-sign, you are agreeing to responsibility for someone else's debt.

That debt may now need to be considered in your mortgage qualification.

---

**DON'T CLOSE ACCOUNTS WITHOUT ASKING**

If the lender verified $15,000 in an account and you close the account, underwriting may need to determine where the funds went.

---

**DON'T CHANGE JOBS WITHOUT CALLING**

Job changes can affect the type and stability of qualifying income.

---

**THE GOLDEN RULE**

**BEFORE YOU:**

**BUY IT**
**FINANCE IT**
**MOVE IT**
**CLOSE IT**
**QUIT IT**
**OPEN IT**
**CO-SIGN IT**

**ASK YOUR LENDER.**

---

## SECTION 25

## REALISTIC MORTGAGE TIMELINES

A mortgage closing does not involve only the lender.

It can involve:

- borrower;
- loan officer;
- processor;
- underwriter;
- appraiser;
- title company;
- attorney;
- insurance agent;

- real estate agents;
- seller;
- condominium/HOA;
- down payment assistance agency;
- government program; and
- settlement provider.

That is why closing timelines vary.

---

### A COMMON TARGET

Many purchase transactions are structured around approximately:

**30–45 DAYS**

But this is a **planning range**, not a universal guarantee.

---

### WHAT HAPPENS INSIDE THAT WINDOW?

| PERIOD | POSSIBLE ACTIVITY |
|---|---|
| Days 1–5 | Application updates, disclosures, document collection |
| Days 3–10 | Processing, appraisal ordered, title started |
| Days 7–20 | Initial underwriting |
| Days 15–30 | Conditions and property review |
| Days 20–35 | Conditions cleared, DPA/final approvals |
| Final Days | Closing Disclosure, final verification, closing preparation |

Actual sequencing varies substantially.

---

## WHAT CAN DELAY CLOSING?

### APPRAISAL

- scheduling;
- report completion;
- revisions;
- repairs;
- value disputes.

### TITLE

- liens;
- judgments;
- ownership issues;
- estate matters;
- unreleased mortgages.

### INSURANCE

- inability to obtain acceptable coverage;
- premium changes;
- required repairs;
- flood requirements.

### BORROWER DOCUMENTS

- missing pages;
- expired documents;
- unsourced deposits;
- unanswered conditions.

### DPA

A down payment assistance provider may conduct its **own review after or alongside first-mortgage underwriting.**

**THA INSIDE TIP™:**
"30-day closing" doesn't mean every participant gets 30 days. Each delay reduces the time available to the next person in the process.

---

## SECTION 26

## ESCROW EXPLAINED

The word **escrow** is confusing because it can describe two different things.

---

### ESCROW #1 — DURING THE PURCHASE TRANSACTION

In many markets, escrow refers to a neutral process or party holding money and/or documents while contractual requirements are being completed.

Depending on the state, the closing function may be handled by:

- title company;
- escrow company;
- settlement company;
- attorney; or
- another permitted closing agent.

Earnest money may be held in an escrow account pending closing.

---

### ESCROW #2 — AFTER YOU GET THE MORTGAGE

Your mortgage servicer may maintain an escrow account to collect money for property-related bills.

Your monthly payment may include:

**P — Principal**

**I — Interest**

**T — Taxes**

**I — Insurance**

That is the familiar term:

**PITI**

---

**EXAMPLE**

Principal & Interest: **$2,100**

Property Tax Escrow: **$450**

Insurance Escrow: **$175**

**Total:**

**$2,725/month**

Even with a fixed-rate mortgage, taxes and insurance can change—meaning your total payment can change.

---

**WHY DOES THE LENDER COLLECT ESCROW?**

Rather than requiring the homeowner to pay a large annual tax or insurance bill all at once, part of the anticipated expense may be collected each month.

The servicer then pays the applicable bill from the escrow account.

THA READI™ TIP:
**Escrow doesn't eliminate taxes and insurance—it changes how you pay them.**

---

**SECTION 27**

## EARNEST MONEY EXPLAINED

Earnest money—sometimes called an **earnest money deposit or EMD**—is money submitted as part of the purchase-contract process to demonstrate the buyer's good-faith intent to purchase the property.

It is not the same thing as your down payment.

---

## EXAMPLE

Purchase price:

**$400,000**

Earnest money paid:

**$5,000**

Down payment requirement:

**$20,000**

If properly credited in the transaction, the $5,000 earnest money already paid can generally be reflected toward the buyer's required funds rather than being paid again.

---

## WHY DOES THE LENDER CARE?

Because the lender may need to:

1. verify that the deposit was actually paid;
2. verify where the money came from; and
3. confirm that it is properly credited on the settlement documents.

---

**DOCUMENTS YOU MAY NEED**

✓ copy of cleared check
✓ bank statement showing withdrawal
✓ evidence from escrow/title company
✓ transaction history
✓ other documentation showing the source and receipt of funds

**FHA Note**

FHA can require the earnest money deposit to be sourced when it exceeds **1% of the sales price** or appears excessive compared with the borrower's history of accumulating savings.

---

**IS EARNEST MONEY ALWAYS REFUNDABLE?**

No.

Whether it is refundable depends on:

- contract terms;
- contingencies;
- deadlines;
- reason for termination;
- state law; and
- circumstances of the transaction.

Your lender does not determine whether your earnest money is contractually refundable.

**THA INSIDE TIP™:**
**Earnest money is a real-estate-contract issue first and a mortgage-documentation issue second.**

---

**SECTION 28**

## HOME INSPECTIONS EXPLAINED

A home inspection is designed to help you understand the physical condition of the property you are considering purchasing.

The inspector may evaluate visible and accessible portions of:

✓ roof
✓ foundation
✓ electrical systems
✓ plumbing
✓ HVAC
✓ windows and doors
✓ attic/crawlspace
✓ appliances
✓ drainage
✓ structural components

Additional specialty inspections may be appropriate depending on the property and location.

---

## HOME INSPECTION VS. APPRAISAL

These are **not the same thing.**

| HOME INSPECTION | APPRAISAL |
|---|---|
| Primarily protects/informs buyer | Primarily supports collateral/lending analysis |
| Focuses heavily on condition | Develops an opinion of market value |
| Identifies possible defects | Compares property with market data |
| Buyer generally chooses inspector | Lender typically orders appraisal |
| May recommend specialist review | May identify property issues relevant to loan eligibility |

---

**EXAMPLE**

An inspector may identify:

- aging HVAC;
- slow plumbing leak;
- damaged window seal;
- old water heater.

The property might still appraise at the required value.

Likewise:

A beautifully maintained house can still appraise **below the contract price.**

---

**AN APPRAISAL DOES NOT REPLACE YOUR INSPECTION**

An appraiser is not performing a full home inspection.

**THA INSIDE TIP™:**
**Inspection asks: "What condition is the house in?"**
**Appraisal asks: "What is the property worth for this transaction?"**

---

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**SECTION 29**

**APPRAISALS EXPLAINED**

An appraisal provides an independent professional **opinion of the property's market value.**

The lender uses valuation information to evaluate the property serving as collateral for the mortgage.

---

**WHAT CAN AFFECT VALUE?**

An appraiser may consider:

✓ recent comparable sales
✓ location
✓ property size
✓ condition
✓ bedroom/bathroom count
✓ improvements
✓ lot characteristics
✓ market conditions
✓ property features

---

**CONTRACT PRICE VS. APPRAISED VALUE**

They are not automatically the same.

**Contract Price**

What the buyer and seller agreed to.

**Appraised Value**

The appraiser's supported opinion of value.

---

**WHAT IF THE APPRAISAL IS LOW?**

Example:

Purchase price: **$425,000**

Appraised value: **$400,000**

Difference:

**$25,000**

Possible solutions may include:

- seller reduces price;
- buyer brings additional eligible funds;
- parties renegotiate;
- lender/appraiser reviews qualifying additional information;
- transaction is restructured;
- buyer exercises contractual rights, if available.

What is possible depends on the contract and loan program.

---

**APPRAISAL REPAIRS**

Certain programs may require correction of property issues before closing.

Examples may include concerns involving:

- safety;

- soundness;
- structural integrity;
- utilities;
- peeling paint in certain properties;
- access;
- other program-specific requirements.

---

**APPRAISALS ALSO HAVE AN AGE**

For example, Fannie Mae generally permits an appraisal effective date within 12 months before the note date, but an update is generally required once the original appraisal is more than four months old; certain appraisal types have different requirements.

**THA READI™ TIP:**
The appraisal isn't about whether *you* love the house. It is about whether the property's documented value and condition support the mortgage transaction.

---

**SECTION 30**

**TITLE & TITLE INSURANCE EXPLAINED**

You are not simply buying a building.

You are acquiring a **legal ownership interest in real property.**

Before closing, title professionals review public records and other information to determine whether ownership can be transferred and what claims may affect the property.

---

## WHAT CAN A TITLE SEARCH FIND?

✓ existing mortgages
✓ unpaid liens
✓ judgments
✓ delinquent taxes
✓ ownership disputes
✓ easements
✓ restrictions
✓ estate/probate issues
✓ recording problems

---

## EXAMPLE

The seller purchased the home 15 years ago.

A previous mortgage was paid off—but the lien release was never properly recorded.

The seller may truly owe nothing.

But title still needs evidence allowing the old lien to be cleared from the record.

That could delay closing.

---

## TITLE INSURANCE

There are generally two policies borrowers should distinguish.

| POLICY | PROTECTS |
|---|---|
| **Lender's Title Policy** | Lender's secured financial interest |

| | |
|---|---|
| **Owner's Title Policy** | Homeowner's ownership interest, subject to policy terms |

**IMPORTANT:**

A lender's title insurance policy protects:

**THE LENDER.**

It does not provide the same protection to you as an owner's title policy.

---

**WHO DOES WHAT?**

Depending on your state, a title or settlement company may also:

- coordinate closing;
- receive funds;
- prepare settlement figures;
- collect signatures;
- pay liens;
- disburse funds;
- record documents.

**THA INSIDE TIP™:**
**The appraisal helps establish value. Title helps establish ownership. The lender needs confidence in both.**

---

**SECTION 31**

**DOWN PAYMENT ASSISTANCE REALITIES**

Down payment assistance can make homeownership possible sooner—but it also adds another layer to the mortgage transaction.

DPA is not one single product.

It can be structured as:

✓ grant
✓ forgivable second mortgage
✓ deferred-payment second mortgage
✓ repayable second mortgage
✓ community assistance
✓ employer assistance
✓ other subordinate financing

---

**DON'T ASK ONLY:**

**“How much money can I get?”**

Also ask:

**Does it have to be repaid?**

**Does interest accrue?**

**Is repayment deferred?**

**Is it forgiven over time?**

**What happens if I sell?**

**What happens if I refinance?**

**Do I have to occupy the property for a certain period?**

---

## DPA CAN CREATE LAYERED UNDERWRITING

Your transaction may have to satisfy:

**FIRST MORTGAGE GUIDELINES**

**AND**

**DPA GUIDELINES**

**Example**

Your first mortgage lender may allow:

**50% DTI**

but the DPA program may allow only:

**45% DTI**

Your transaction generally has to satisfy the more restrictive applicable requirement.

---

## DPA MAY HAVE ITS OWN REQUIREMENTS

✓ income limits
✓ purchase-price limits
✓ minimum credit score
✓ maximum DTI
✓ first-time buyer requirements
✓ approved lender requirements
✓ homebuyer education
✓ minimum borrower contribution
✓ property restrictions

✓ geographic requirements
✓ funding availability

---

**FUNDING AVAILABILITY MATTERS**

Some assistance programs operate with limited annual or fiscal-year funding.

Qualifying for a program does not always guarantee funding will remain available indefinitely.

**THA READI™ TIP:**
Down payment assistance may reduce one barrier—but it can add **additional rules, documentation, approvals, and timelines.**

---

**SECTION 32**

**OPERATIONAL BOTTLENECKS & WHY CLOSINGS STALL**

Homebuyers often assume:

**"The underwriter has my file, so why isn't it done?"**

Mortgage files operate like a chain.

One missing piece can stop the next step.

---

**BOTTLENECK EXAMPLE**

Underwriter requests updated bank statement.

↓

Borrower waits four days.

↓

Statement contains a $12,000 unexplained deposit.

↓

Underwriter requests source documentation.

↓

Borrower sends only a Cash App screenshot.

↓

Documentation is insufficient.

↓

Condition remains open.

↓

Clear to Close cannot be issued.

↓

Closing package cannot be finalized.

**One condition just became a multi-day delay.**

---

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## COMMON BOTTLENECKS

### BORROWER

- incomplete documents;
- slow responses;
- undocumented funds;
- financial changes.

### APPRAISAL

- inspection scheduling;
- revisions;
- repair requirements;
- value issues.

### TITLE

- unreleased liens;
- judgments;
- ownership questions;
- missing documents.

### INSURANCE

- high premium;
- insurability concerns;
- incorrect mortgagee clause;
- insufficient coverage.

### DPA

- separate review;
- funding reservations;
- additional conditions.

## CLOSING

- incorrect figures;
- wire issues;
- unsigned documents;
- final conditions.

---

## COMMUNICATION IS AN OPERATIONAL ISSUE

Borrowers should:

✓ read emails completely
✓ answer phone calls from the mortgage team
✓ respond promptly
✓ provide exactly what was requested
✓ ask questions before making changes

**THA INSIDE TIP™:**
A mortgage file is a relay race. **If one person doesn't pass the baton, everyone behind them waits.**

---

## SECTION 33

## CONTRACT-TO-CLOSE EXPECTATIONS

Once your offer is accepted, the pace changes.

You are no longer simply preparing to buy.

You are now working against a **contractual closing date.**

---

THE MORTGAGE FILE LIFECYCLE

**CONTRACT**

Ratified purchase agreement received.

↓

**PROCESSING**

Processor organizes the loan file, verifies documentation, identifies missing items, and coordinates third-party requirements.

↓

**UNDERWRITING**

Underwriter analyzes borrower eligibility, funds, credit, income, and property requirements.

↓

**CONDITIONAL APPROVAL**

Remaining documentation and requirements are identified.

↓

**CONDITIONS**

Borrower, lender, title, insurance, appraisal, or other parties satisfy outstanding requirements.

↓

**FINAL UNDERWRITING REVIEW**

Underwriter reviews the remaining items.

↓

**CLEAR TO CLOSE**

Underwriting requirements are satisfied for the file to proceed.

↓

**CLOSING DISCLOSURE & CLOSING PREPARATION**

Final figures and documents are coordinated.

↓

**CLOSING**

Documents are signed, funds are processed, and recording occurs as required.

---

**FILES DO NOT ALWAYS MOVE IN A STRAIGHT LINE**

A file can move:

**Underwriting → Conditions → Underwriting → New Condition → Underwriting → Clear to Close**

That is normal.

New documentation can create new questions.

**Example**

Updated bank statement requested.

Statement reveals new debt payment.

Now the lender must investigate whether a new debt exists.

---

**THA READI™ TIP:**
The fastest file isn't always the file with the highest income or best credit. Often it is the **most complete, responsive, and well-documented file.**

---

**SECTION 34**

**COMMON MORTGAGE MYTHS DEBUNKED**

Mortgage myths can make buyers believe they are either:

**not ready when they actually may be**

—or—

**fully ready when they still have work to do.**

---

**MYTH:**

**“I need 20% down.”**

**TRUTH:**

Many loan programs permit considerably less than 20% down when eligibility requirements are met.

Twenty percent may affect mortgage-insurance requirements on some conventional loans, but it is not a universal minimum down payment.

---

**MYTH:**

**“My Credit Karma score is my mortgage score.”**

**TRUTH:**

Consumer credit-monitoring scores may use different scoring models from those used in mortgage lending.

You can have the same credit report information but different scores because the scoring models are different.

---

**MYTH:**

**“Pre-approved means approved.”**

**TRUTH:**

Pre-approval generally occurs before the entire property and transaction have completed final underwriting.

You still need:

✓ acceptable documentation
✓ final underwriting
✓ acceptable property
✓ title
✓ insurance
✓ continued eligibility

---

**MYTH:**

**“If the money is in my bank account, I can use it.”**

**TRUTH:**

Funds used for a mortgage transaction may need to come from an acceptable source and may need to be documented.

Having money and having **verified eligible funds** are not always the same thing.

---

**MYTH:**

**“If my loan is Clear to Close, nothing can go wrong.”**

**TRUTH:**

Final closing requirements still need to occur. Certain material changes before consummation can still require review.

---

**MYTH:**

**“A low appraisal means the seller has to lower the price.”**

**TRUTH:**

An appraisal does not automatically rewrite the purchase contract.

What happens next depends on negotiations, financing, contract terms, and available options.

---

**MYTH:**

**“My fixed-rate mortgage payment will never change.”**

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**TRUTH:**

Principal and interest on a fixed-rate loan generally remain scheduled, but changes in property taxes, insurance, mortgage insurance, or escrow requirements can change the total payment.

---

**THA READI™ TRUTH:**
**Mortgage readiness begins when you replace assumptions with information.**

---

**SECTION 35**

**CLOSING COSTS EXPLAINED**

Your down payment is **not** your closing cost.

And your closing costs are **not** necessarily your final cash to close.

These are three different concepts.

---

**DOWN PAYMENT**

Your required investment toward the purchase price.

**Example**

Purchase price:

**$400,000**

5% down:

**$20,000**

---

## CLOSING COSTS

Expenses associated with financing and completing the transaction.

A frequently used planning estimate is approximately:

**2%–5% OF PURCHASE PRICE**

But actual costs vary widely.

For a $400,000 purchase:

| ESTIMATE | AMOUNT |
|---|---|
| 2% | $8,000 |
| 3% | $12,000 |
| 4% | $16,000 |
| 5% | $20,000 |

These are planning examples—not quotes.

---

## WHAT MAKES UP CLOSING COSTS?

### LENDER/LOAN COSTS

May include:

- origination charges;
- points;
- appraisal;

- credit services;
- underwriting/processing charges where applicable;
- other lender-related fees.

**TITLE/SETTLEMENT COSTS**

May include:

- title search;
- title insurance;
- settlement/escrow fees;
- attorney fees where applicable;
- recording-related services.

**GOVERNMENT CHARGES**

May include:

- recording charges;
- transfer/recordation taxes;
- other jurisdictional charges.

**PREPAIDS**

Prepaids are often confused with lender fees.

They can include:

- prepaid interest;
- homeowners insurance premium;
- property taxes.

**INITIAL ESCROW**

The lender may also collect funds at closing to establish an escrow account for future:

- taxes;
- homeowners insurance.

---

**WHAT IS CASH TO CLOSE?**

Think of it this way:

**Down Payment**

-

**Closing Costs**

-

**Prepaids / Initial Escrow**

–

**Earnest Money Already Paid**

–

**Seller Credits**

–

**Lender Credits**

–

**Eligible Assistance**

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## CASH TO CLOSE

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### EXAMPLE

Down payment: **$20,000**

Closing costs/prepaids: **$13,000**

Subtotal: **$33,000**

Earnest money previously paid: **– $5,000**

Seller credit: **– $6,000**

**Estimated cash to close:**

**$22,000**

**THA READI™ TIP:**
Don't ask only **"How much is my down payment?"**
Ask: **"What is my estimated total cash to close?"**

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## SECTION 36

### HOW TO READ A CLOSING DISCLOSURE — CD

The **Closing Disclosure**, commonly called the **CD**, is generally the document that shows the final details of the mortgage you are preparing to close.

For covered transactions, the borrower generally must receive it at least:

**THREE BUSINESS DAYS BEFORE CLOSING.**

That time is designed to give you an opportunity to review the final terms **before you arrive at the closing table.**

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**PAGE 1 — KNOW YOUR LOAN**

Review:

✓ loan amount
✓ interest rate
✓ monthly principal and interest
✓ prepayment penalty, if any
✓ balloon payment, if any
✓ estimated taxes and insurance
✓ total projected payment
✓ cash to close

Compare these items to your expectations.

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**PAGE 2 — KNOW YOUR COSTS**

Review the detailed closing-cost sections.

Look for:

- origination charges;
- loan costs;
- title fees;
- recording charges;
- taxes;
- prepaid items;
- escrow deposits;

- other transaction costs.

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## PAGE 3 — UNDERSTAND YOUR CASH TO CLOSE

This section reconciles your numbers and shows how the transaction arrived at the final cash requirement.

Review:

✓ purchase price
✓ loan amount
✓ earnest money/deposit
✓ seller credits
✓ lender credits
✓ other credits
✓ down payment
✓ cash from borrower

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## PAGES 4–5 — UNDERSTAND THE LOAN BEYOND CLOSING

These pages provide additional information about the mortgage, including items that can help you understand:

- late-payment provisions;
- escrow;
- servicing;
- total payments;
- finance charge;
- APR;
- TIP;
- lender/contact information.

## COMPARE THE LE TO THE CD

| LOAN ESTIMATE | CLOSING DISCLOSURE |
|---|---|
| Early in mortgage process | Near closing |
| Estimated costs | Final transaction figures |
| Estimated cash to close | Final cash-to-close calculation |
| Used to evaluate proposed loan | Used to verify closing transaction |

The CFPB specifically encourages borrowers to compare the Closing Disclosure with the most recent Loan Estimate and investigate unexpected differences.

## DO ALL CHANGES CREATE ANOTHER THREE-DAY WAIT?

No.

Many changes can be reflected on an updated Closing Disclosure without automatically restarting the three-business-day waiting period.

Certain significant changes can trigger a new waiting period under TRID, including circumstances involving:

- certain APR changes beyond permitted tolerance;
- addition of a prepayment penalty; or
- a change in the loan product.

Your lender will determine whether redisclosure and an additional waiting period are required.

**BEFORE YOU CLOSE, CONFIRM:**

☐ Purchase price is correct
☐ Loan amount is correct
☐ Interest rate is correct
☐ Monthly payment is what you expected
☐ Seller credits are included
☐ Lender credits are included
☐ Earnest money is credited
☐ Down payment is correct
☐ Cash to close is correct
☐ Escrow amounts make sense
☐ You understand all major fees

---

**DON'T WAIT UNTIL CLOSING DAY**

If your CD says:

**Cash to Close: $24,687**

and you expected:

**$16,000**

Closing day is not the best time to ask why.

Call immediately and reconcile the difference.

**THA INSIDE TIP™:**
The Closing Disclosure isn't just another form to e-sign. **It is your final financial audit before you sign the mortgage.**

**KNOW YOUR NUMBERS BEFORE YOU SIGN YOUR NAME.**

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## SECTION 37

## WHAT HAPPENS ON CLOSING DAY

### The Final Steps Before the Home Becomes Yours

Closing day is the point where all the work completed during the homebuying and mortgage process comes together.

By this stage, your loan has typically completed underwriting, required conditions have been satisfied, final closing figures have been prepared, and the transaction is ready to move toward funding and legal transfer of ownership.

For many buyers, closing day feels exciting—and sometimes overwhelming—because there may be many documents to review and sign.

Understanding what happens before you arrive can make the process feel much more manageable.

**THA READI™ TIP:**
Closing day should not be the first time you learn what you are signing. Review your loan terms, your Closing Disclosure, your required cash to close, and your wire instructions before the appointment.

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## WHAT DOES "CLOSING" ACTUALLY MEAN?

Closing is the process of completing the legal and financial requirements needed to finalize the real estate transaction.

Depending on the state and transaction, closing may involve a:

- title company;
- settlement company;
- escrow company;

- closing attorney;
- lender;
- real estate agents; and
- other authorized parties.

During the closing process, several things must happen before ownership is fully transferred.

**Typical Closing-Day Flow**

**Final Documents Prepared**

↓

**Buyer Reviews and Signs**

↓

**Funds Are Verified**

↓

**Lender Funds the Loan**

↓

**Documents Are Recorded**

↓

**Transaction Is Complete**

↓

**Keys Are Released**

The exact sequence may vary based on local practice, state law, lender requirements, and the terms of the sales contract.

---

**BEFORE YOU ARRIVE AT CLOSING**

You should know several important details before closing day.

Confirm:

☐ Closing date
☐ Closing time
☐ Closing location
☐ Whether closing is in person, remote, or hybrid
☐ What identification you must bring
☐ Your final cash-to-close amount
☐ How funds must be delivered
☐ Who is authorized to provide wire instructions
☐ Whether all borrowers must attend
☐ Whether a power of attorney has been approved, if applicable
☐ Whether any final documents are still outstanding

You should also have received and reviewed your **Closing Disclosure** before closing, when required.

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**REVIEW YOUR CLOSING DISCLOSURE BEFORE CLOSING DAY**

The Closing Disclosure, often called the **CD**, is one of the most important documents in the mortgage process.

It summarizes the final financial terms of your mortgage transaction.

The Closing Disclosure generally includes:

- loan amount;
- interest rate;
- monthly principal and interest;
- projected payment;
- property taxes;
- homeowners insurance;
- mortgage insurance, if applicable;
- closing costs;
- lender credits;
- seller credits;
- prepaid items;
- escrow deposits;
- cash to close; and
- other transaction details.

**Compare Your Final Numbers**

Before closing, compare:

| ITEM | WHAT TO REVIEW |
|---|---|
| Purchase Price | Does it match your contract? |
| Loan Amount | Does it match what you expected? |
| Interest Rate | Is it the rate you agreed to? |
| Loan Type | Is it the correct program? |
| Monthly Payment | Does it match your expectations? |
| Closing Costs | Are the fees understandable? |
| Seller Credits | Are all agreed credits shown? |
| Down Payment | Is the amount correct? |
| Cash to Close | Do you know exactly how much is required? |

If something looks wrong, ask before signing.

Do not wait until the signing appointment to raise a question about a major discrepancy if it can be resolved beforehand.

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**WHAT DOCUMENTS WILL YOU SIGN?**

Closing packages can be lengthy.

Not every document applies to every loan, but buyers may commonly sign documents such as:

**Promissory Note**

The promissory note is your legal promise to repay the mortgage debt.

It generally outlines:

- loan amount;
- interest rate;
- repayment terms;
- payment due date; and
- borrower obligations.

**Mortgage or Deed of Trust**

This document secures the loan with the property.

It generally gives the lender certain rights in the property if the borrower fails to meet the terms of the mortgage.

The exact document name may vary by state.

**Closing Disclosure**

This summarizes the financial terms and costs of the transaction.

**Loan Program Documents**

Depending on the mortgage type, you may sign additional forms associated with:

- Conventional financing;
- FHA financing;
- VA financing;
- USDA financing;
- down payment assistance;
- grants;
- subordinate financing; or
- other assistance programs.

**Escrow Documents**

These may explain how your servicer will collect and manage funds for:

- property taxes;
- homeowners insurance; and
- other escrowed items.

**Affidavits and Certifications**

You may be asked to certify information about:

- occupancy;
- identity;
- marital status;
- property use;
- debts;
- financial information;
- or other transaction matters.

**Title and Settlement Documents**

These may address:

- ownership;
- title insurance;
- prorations;
- transfer taxes;
- settlement charges;
- and recording.

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**DO NOT SIGN WHAT YOU DO NOT UNDERSTAND**

Closing documents are legally binding.

It is appropriate to ask questions.

Before signing, you should understand:

- your loan amount;
- your interest rate;
- your monthly payment;
- whether your rate is fixed or adjustable;
- your loan term;
- whether mortgage insurance applies;
- your cash required at closing;
- whether you have an escrow account;
- when your first payment is due; and
- who will service your mortgage.

If a document appears inconsistent with what you were told, stop and ask for clarification.

**THA READI™ REMINDER:**
Closing is not the time to feel pressured to sign something you believe is incorrect. Ask the closing agent, lender, or appropriate party to explain the discrepancy.

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BRING VALID IDENTIFICATION

The closing agent will typically need to verify your identity.

You may be required to bring one or more forms of government-issued identification.

Examples may include:

- driver's license;
- state-issued identification;
- passport; or
- another approved form of identification.

The name on your identification should match the name used in your loan and closing documents.

If your name has recently changed or differs across documents, address this before closing whenever possible.

---

VERIFY YOUR CASH TO CLOSE

One of the most important closing-day responsibilities is to ensure that your required funds are delivered correctly.

Your final cash-to-close amount may include:

**Down Payment**

- 

**Closing Costs**

- 

**Prepaid Expenses**

- 

**Escrow Deposits**

–

**Credits and Deposits Already Paid**

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**Final Cash to Close**

**Example**

| ITEM | AMOUNT |
|---|---|
| Down Payment | $12,000 |
| Closing Costs | $8,500 |
| Prepaid Taxes/Insurance | $3,000 |
| Initial Escrow Deposit | $2,000 |
| Total | $25,500 |
| Earnest Money Already Paid | -$3,000 |
| Seller/Lender Credits | -$4,000 |
| **Estimated Cash to Close** | **$18,500** |

Your actual transaction will be based on your specific loan and closing figures.

---

**WIRE FRAUD IS A REAL CLOSING RISK**

Homebuyers are frequently targeted by criminals attempting to steal closing funds.

Fraudsters may send emails that appear to come from:

- your lender;
- your real estate agent;
- the title company;
- the settlement attorney; or
- another party involved in the transaction.

The message may tell you that wire instructions have changed.

This can be a scam.

**Before Sending Any Wire**

**STOP**

Do not rely solely on emailed instructions.

**VERIFY**

Call the settlement or title company using a known and independently verified phone number.

**CONFIRM**

Confirm:

- bank name;
- account number;
- routing number;
- beneficiary information; and
- exact amount required.

**SEND**

Only send funds after verification.

**Important**

If you receive a message saying:

**“Our wire instructions have changed.”**

Treat it as suspicious until you independently verify it.

Never use the phone number contained in the suspicious email to verify the wire.

---

**DO YOU HAVE TO WIRE FUNDS?**

Not always.

Permitted payment methods vary by:

- state;
- settlement company;
- amount;
- lender;
- and transaction.

Acceptable methods may include:

- wire transfer;
- cashier's check;
- certified funds; or
- another approved method.

Ask your settlement agent in advance exactly how funds must be delivered.

Do not assume a personal check, debit card, or last-minute transfer will be accepted.

---

## WHAT DOES "FUNDING" MEAN?

Signing documents does not always mean the transaction is immediately complete.

After documents are signed, the lender may need to review the closing package or confirm that funding conditions have been met.

Once the lender authorizes the mortgage funds to be released, the loan is considered **funded**.

**Funding May Require:**

☐ All required documents signed
☐ Proper identification
☐ Verified borrower funds
☐ Final lender approval
☐ Final closing conditions satisfied
☐ Correct closing figures
☐ Required documents returned to the lender

The timing of funding can vary.

Some transactions fund immediately.

Others may take additional time depending on:

- state practice;
- time of day;
- lender processes;
- document review;
- funding cutoffs; or
- unresolved issues.

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**WHAT DOES “RECORDING” MEAN?**

Recording is the process of filing certain legal documents with the appropriate local government recording office.

Documents commonly recorded may include:

- the deed transferring ownership; and
- the mortgage or deed of trust securing the loan.

Recording places the transaction into the public record.

**Why Recording Matters**

Recording helps establish:

- legal ownership;
- lender lien rights; and
- the official property record.

In many transactions, keys are not released until the required documents have been recorded or the settlement agent confirms the transaction is complete.

---

**SIGNED DOES NOT ALWAYS MEAN CLOSED**

This is an important distinction.

You can finish signing documents and still be waiting for:

- lender funding;
- final settlement approval;
- recording;
- or confirmation that all closing requirements are satisfied.

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**Think of Closing as a Sequence**

**SIGNED**

means:

You completed the documents.

**FUNDED**

means:

The lender released the mortgage proceeds.

**RECORDED**

means:

The applicable legal documents were placed into the public record.

**CLOSED**

means:

The transaction has been completed according to the required process.

**THA READI™ TIP:**
Don't schedule movers, deliveries, contractors, or utility work assuming you will receive keys immediately after signing unless the closing agent confirms the release process.

## WHEN DO YOU GET THE KEYS?

Key delivery depends on:

- the sales contract;
- local closing practices;
- funding;
- recording;
- and seller possession terms.

Some buyers receive keys:

- immediately after settlement;
- after funding;
- after recording;
- later the same day;
- or on another agreed date.

Do not assume that signing documents automatically gives you immediate possession of the property.

---

## WHAT ABOUT THE FINAL WALK-THROUGH?

The final walk-through usually occurs shortly before closing.

It is not the same as a home inspection.

The purpose is generally to confirm that:

- the property remains in the expected condition;
- agreed repairs were completed;
- fixtures or appliances included in the contract remain;
- the seller has removed required personal property;
- no significant new damage has occurred;
- and the property is ready for transfer.

**During the Final Walk-Through, Look For:**

☐ Major new damage
☐ Missing appliances or fixtures
☐ Incomplete agreed repairs
☐ Plumbing leaks
☐ Heating/cooling concerns
☐ Items that should have been removed
☐ Property condition that differs materially from the contract

If there is a problem, notify your real estate agent immediately.

Do not wait until after closing to raise an issue you identified beforehand.

---

## FINAL EMPLOYMENT OR CREDIT CHECKS MAY STILL OCCUR

Some buyers assume that once they receive a clear-to-close notification, nothing else can affect the loan.

That is not always true.

Depending on lender and investor requirements, lenders may perform final checks related to:

- employment;
- credit;
- undisclosed debt;
- account balances;
- or other information.

This is why buyers should continue to avoid major financial changes before closing.

**Until the Loan Is Fully Closed:**

Avoid:

- opening new credit;
- financing furniture;
- buying a car;
- making unexplained large deposits;
- changing jobs without discussing it with your lender;
- quitting your job;
- co-signing debt;
- increasing credit-card balances significantly; or
- moving money in a way that creates documentation problems.

Your financial picture should remain as stable as possible through closing.

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**COMMON CLOSING-DAY DELAYS**

Not every closing goes exactly as planned.

Delays can occur because of:

- missing documents;
- unsigned documents;
- incorrect names;
- cash-to-close issues;
- unverified wire transfers;
- title issues;
- unresolved lender conditions;
- insurance problems;
- final employment concerns;
- credit changes;
- document errors;
- recording delays;
- or funding cutoff times.

A delay does not always mean the transaction is falling apart.

It may simply mean an issue must be corrected before the transaction can legally or financially move forward.

---

## CLOSING DAY DO'S AND DON'TS

| DO | DON'T |
|---|---|
| Review your Closing Disclosure | Wait until signing to review your numbers |
| Bring required identification | Assume your ID issue can be fixed later |
| Verify wire instructions | Trust emailed wire changes without calling |
| Ask questions | Sign documents you believe are incorrect |
| Keep your phone available | Become unreachable on closing day |
| Bring required funds as instructed | Bring an unapproved payment method |
| Confirm when keys will be released | Assume signing automatically means possession |
| Save copies of all documents | Discard closing documents after settlement |

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## WHAT SHOULD YOU LEAVE CLOSING WITH?

Before leaving, confirm how you will receive copies of your final documents.

Keep a complete closing file that includes, when applicable:

☐ Final Closing Disclosure
☐ Promissory Note
☐ Mortgage or Deed of Trust
☐ Deed documentation
☐ Title documents
☐ Settlement statement
☐ Insurance information
☐ Escrow information

☐ First payment instructions
☐ Servicer information
☐ Home warranty information
☐ HOA/Condo documents
☐ Assistance-program documents
☐ Other signed disclosures

Store these documents securely.

Some may be important years later when you:

- sell the home;
- refinance;
- dispute a charge;
- file an insurance claim;
- complete tax documentation;
- or need proof of the original transaction.

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**YOUR CLOSING-DAY CHECKLIST**

**BEFORE CLOSING**

☐ Review my Closing Disclosure
☐ Confirm my cash to close
☐ Verify wire instructions
☐ Complete my final walk-through
☐ Bring valid identification
☐ Confirm closing location and time
☐ Avoid new debt or credit activity
☐ Keep required funds available
☐ Confirm homeowners insurance is active

**AT CLOSING**

☐ Review documents before signing
☐ Confirm my interest rate
☐ Confirm my loan amount
☐ Confirm my monthly payment
☐ Confirm my first payment date
☐ Confirm my mortgage servicer
☐ Ask questions about anything I do not understand
☐ Sign required documents

**BEFORE LEAVING**

☐ Confirm funds were received
☐ Confirm next steps for funding
☐ Ask when recording will occur
☐ Confirm when I receive the keys
☐ Obtain copies of my documents
☐ Save servicer and payment information

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**CLOSING DAY: WHAT HAPPENS NEXT?**

**1. SIGNING**

You review and sign your mortgage and settlement documents.

↓

**2. FUNDS VERIFIED**

Your required funds and lender funds are confirmed.

↓

**3. FUNDING**

The lender authorizes release of the mortgage proceeds.

↓

**4. RECORDING**

Required legal documents are submitted to the local recording authority.

↓

**5. CLOSING CONFIRMED**

The settlement agent confirms the transaction is complete.

↓

**6. KEY DELIVERY**

You receive possession according to the contract and local closing process.

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**FINAL READINESS MESSAGE**

Closing day can feel like the finish line.

But it is really the transition from **homebuyer** to **homeowner**.

The more prepared you are before you arrive, the easier it is to recognize errors, ask informed questions, protect your money, and understand what is happening at each stage of the transaction.

**Remember:**

**Signing gets the paperwork done. Funding moves the money. Recording makes the transfer official. Readiness helps you understand all three.**

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**SECTION 38**

**HOMESTEAD EXPLAINED**

Homestead benefits may help:
✓ reduce property taxes
✓ provide homeowner protections

Usually applies to:

**primary residences.**

**One of the Most Overlooked Benefits of Homeownership**

Many first-time homebuyers hear the word:

**“Homestead”**

during the mortgage or closing process…

…but very few buyers truly understand:

- what it means
- how it works
- how it can save money
- why it matters after closing

Understanding homestead protections and exemptions is an important part of:

**long-term homeownership strategy.**

---

**WHAT IS HOMESTEAD?**

The term “Homestead” generally refers to:

**legal protections and/or tax benefits available on a borrower’s primary residence.**

Depending on the state, homestead benefits may include:
✓ property tax reductions
✓ protection from certain creditors
✓ caps on assessed value increases
✓ homeowner protections

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**SIMPLE EXPLANATION**

A homestead exemption tells the government:

**“This is my primary residence.”**

Because the property is owner-occupied, the homeowner may receive:

- reduced property taxes
- legal protections
- homeowner benefits

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## WHY HOMESTEAD MATTERS

Homestead benefits can help:
✓ reduce annual property taxes
✓ improve affordability
✓ protect homeowners financially
✓ stabilize housing costs long-term

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## PRIMARY RESIDENCE REQUIREMENT

Most homestead exemptions apply ONLY to:

**owner-occupied primary residences.**

Typically:
✓ you must live in the home
✓ the home must be your legal residence
✓ you usually cannot claim homestead on investment properties

## HOMESTEAD EXEMPTION & PROPERTY TAXES

One of the most common homestead benefits: **property tax reduction.**

### How It Works

A portion of the home's value may become:

**exempt from taxation.**

This reduces:

**taxable assessed value.**

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**WHY THIS MATTERS FOR MONTHLY PAYMENTS**

Property taxes are often included in **your monthly mortgage payment.**

This means, **lower property taxes may reduce monthly housing costs.**

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**HOMESTEAD PROTECTION BENEFITS**

In some states homestead protections may also help shield:

**portions of home equity from certain creditors.**

This protection varies heavily by:

- state law
- exemption limits
- legal circumstances

**IMPORTANT:**

**Homestead Laws Vary by State**

Every state handles homestead differently.

Some states offer:
✓ significant tax reductions
✓ aggressive homeowner protections

Others offer:
✓ smaller exemptions
✓ limited protections

**IMPORTANT:**

**Homestead Is NOT Automatic Everywhere**

Some jurisdictions require:
✓ application forms
✓ filing deadlines
✓ proof of occupancy

Many first-time buyers mistakenly assume the exemption automatically happens.

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**WHEN SHOULD HOMESTEAD BE FILED?**

Typically:

**AFTER closing.**

Usually once:
✓ ownership transfers
✓ occupancy begins
✓ deed recording is complete

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**HOMESTEAD & ESCROW ACCOUNTS**

Many buyers ask:

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"Will my payment automatically change?"

Possibly.

If:
✓ property taxes decrease
AND
✓ taxes are escrowed

then:

**future mortgage payments may adjust.**

**HOMESTEAD & AFFORDABILITY STRATEGY**

Homestead benefits should be viewed as part of:

**long-term affordability planning.**

Smart buyers evaluate:
✓ future tax increases
✓ reassessment risks
✓ escrow changes
✓ long-term housing costs

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**SECTION 39**

**TAX ABATEMENT EXPLAINED**

Tax abatements temporarily reduce:

**property taxes.**

This may significantly improve:
✓ affordability
✓ monthly payments

**One of the Most Powerful — and Most Misunderstood — Affordable Housing Benefits**

Many first-time homebuyers hear terms like:

- tax abatement
- PILOT program
- property tax reduction
- tax freeze
- tax incentive

without truly understanding:

**what they mean or how much money they may save.**

Tax abatements can dramatically improve:
✓ affordability
✓ monthly payment comfort
✓ long-term homeownership sustainability

especially in:

- urban redevelopment areas
- affordable housing programs
- workforce housing initiatives
- revitalization zones

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## WHAT IS A TAX ABATEMENT?

A tax abatement is:

**a temporary reduction or elimination of property taxes.**

This benefit is usually offered by:

- local governments
- housing agencies
- redevelopment authorities
- municipalities

to encourage:
✓ homeownership
✓ neighborhood redevelopment
✓ affordable housing growth
✓ economic development

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## SIMPLE EXPLANATION

A tax abatement allows eligible homeowners to:

**pay reduced property taxes for a period of time.**

This may significantly reduce:

- monthly mortgage payments
- annual housing expenses
- long-term ownership costs

## HOW TAX ABATEMENTS WORK

Normally:
property taxes are based on:

**the assessed value of the home.**

With a tax abatement:

**some or all of the taxable value may be temporarily reduced.**

## WHY THIS MATTERS

That savings may help buyers:
✓ qualify more easily
✓ reduce DTI
✓ improve affordability
✓ purchase in higher-cost areas

### Common Tax Abatement Types

| **Program Type** | **Description** |
|---|---|
| Full Abatement | Temporary elimination of taxes |
| Partial Abatement | Reduced taxable value |
| Improvement Abatement | Taxes reduced only on improvements |

| Program Type | Description |
|---|---|
| Redevelopment Incentive | Area revitalization incentive |
| PILOT Program | Payment In Lieu of Taxes structure |

---

**WHAT IS A PILOT PROGRAM?**

**PILOT = Payment In Lieu Of Taxes**

Instead of paying:

**full traditional property taxes,**

the homeowner may pay:

**a reduced negotiated payment.**

PILOT programs are common in:

- redevelopment zones
- affordable housing projects
- mixed-income developments

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**WHY CITIES OFFER TAX ABATEMENTS**

Local governments often use tax abatements to:
✓ encourage neighborhood investment
✓ attract buyers to redevelopment areas
✓ stimulate housing growth

✓ improve affordability
✓ encourage revitalization

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**WHO COMMONLY BENEFITS FROM TAX ABATEMENTS?**

| **Buyer Type** | **Possible Benefit** |
|---|---|
| First-Time Buyers | Improved affordability |
| Workforce Housing Buyers | Reduced housing costs |
| Affordable Housing Participants | Lower monthly expenses |
| Redevelopment Buyers | Neighborhood incentives |

**IMPORTANT:**

**Tax Abatements Are NOT Always Automatic**

Many buyers mistakenly assume:

"If the property has an abatement, I automatically receive it forever."

Not necessarily.

Some programs require:
✓ applications
✓ occupancy verification
✓ annual certifications
✓ primary residence occupancy

**TAX ABATEMENT TERMS & EXPIRATION**

Most abatements are:

**temporary.**

**Common Abatement Timeframes**

| **Program Length** | **Example** |
|---|---|
| 5-Year Abatement | Reduced taxes for 5 years |
| 10-Year Abatement | Reduced taxes for 10 years |
| Graduated Abatement | Taxes slowly increase over time |

**IMPORTANT:**

**Abatements Eventually Expire**

This is one of the BIGGEST things first-time buyers overlook.

When the abatement expires:

**property taxes may increase substantially.**

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**TAX ABATEMENTS & ESCROW ACCOUNTS**

Because taxes are often escrowed:

**abatements may directly impact monthly mortgage payments.**

Lower taxes may mean:
✓ lower escrow requirements
✓ lower total monthly payment

**IMPORTANT:**

**Escrow Shortages Can Occur**

When abatements expire, escrow accounts may become:

**underfunded.**

This may create:
✓ escrow shortages
✓ increased monthly payments
✓ lump-sum repayment options

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**HOW TAX ABATEMENTS IMPACT QUALIFICATION**

Reduced taxes may help:
✓ reduce DTI
✓ increase buying power
✓ improve affordability calculations

## IMPORTANT QUESTIONS TO ASK

**Buyers should ALWAYS ask:**

✓ How long does the abatement last?
✓ Is the abatement transferable?
✓ What happens when it expires?
✓ Will taxes reassess later?
✓ Is annual recertification required?
✓ Is this reflected in my escrow payment?

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## TAX ABATEMENTS & NEW CONSTRUCTION

Tax abatements are especially common with:

**new construction developments.**

However:
buyers should understand:

**taxes may initially be estimated incorrectly.**

### Why New Construction Taxes Change

Initial assessments may be based on:
✓ land value only

Later reassessments may include:
✓ completed home value

This can significantly increase:

**future tax obligations.**

---

## COMMON FIRST-TIME BUYER MISTAKES

❌ Assuming taxes will stay low forever
❌ Not understanding expiration dates
❌ Ignoring reassessment risk
❌ Failing to budget for future increases
❌ Confusing abatement with fixed taxes

---

## TAX ABATEMENT VS HOMESTEAD

| Feature | Tax Abatement | Homestead |
|---|---|---|
| Purpose | Temporary tax reduction | Primary residence protection |
| Timeframe | Often temporary | Often ongoing |
| Based on Redevelopment? | Commonly | Not necessarily |
| Requires Application? | Often | Often |

---

## SECTION 40

## LIFE AFTER CLOSING

**Your Homeownership Readiness Continues After You Get the Keys**

Closing day is a milestone—not the finish line.

**Closing day is a milestone—not the finish line.**

You signed the documents. The loan funded. The deed was recorded. You received the keys.

**Congratulations, you are officially a homeowner!**

But becoming a homeowner also means taking responsibility for a new set of financial, property, and mortgage-related obligations.

During the months and years following closing, your mortgage payment may change, your loan may be transferred to another company, your property taxes or homeowners' insurance may increase, repairs may arise, and you may eventually have opportunities to refinance or otherwise change your mortgage.

Understanding these possibilities before they happen can help you avoid unnecessary surprises.

**THA READI™ TIP:**
Mortgage readiness gets you to the closing table. **Homeownership readiness helps you stay successfully housed after closing.**

---

## THE FIRST YEAR OF HOMEOWNERSHIP

Your first year as a homeowner can include several important events.

| Approximate Timing | What May Happen | What You Should Do |
|---|---|---|
| Immediately After Closing | Loan documents and closing records become your permanent records | Store your Closing Disclosure, deed, note, insurance information, warranties, and other important documents |
| First 30–60 Days | First mortgage payment becomes due | Confirm payment instructions directly with your mortgage servicer |
| First Several Months | Loan servicing may be transferred | Review all transfer notices carefully |

| | | |
|---|---|---|
| Throughout the Year | Property repairs and maintenance occur | Maintain an emergency/home maintenance reserve |
| Insurance Renewal | Homeowners insurance premium may change | Review coverage and premium |
| Property Tax Cycle | Tax assessment or tax bill may change | Review notices from your taxing authority |
| Approximately Annually | Escrow account may be analyzed | Review the escrow analysis carefully |
| Over Time | Property value, interest rates, or your finances may change | Periodically review your mortgage strategy |

---

### KNOW WHO SERVICES YOUR MORTGAGE

The company that originated your mortgage is not necessarily the company that will collect your mortgage payments forever.

There are several parties you may encounter:

| Party | Primary Role |
|---|---|
| **Lender/Originator** | Provides or originates the mortgage used to purchase the home |
| **Investor** | May ultimately own the mortgage loan |
| **Mortgage Servicer** | Collects payments and manages the day-to-day administration of the mortgage |
| **Escrow Administrator** | Manages escrowed taxes and insurance, often through the mortgage servicer |

Your mortgage **servicer** is especially important after closing.

Your servicer may:

- collect your monthly mortgage payment;
- maintain your escrow account;
- pay property taxes from escrow;
- pay homeowners insurance premiums from escrow;

- provide mortgage statements;
- provide year-end tax information;
- manage certain loss-mitigation options if you experience financial hardship; and
- provide your mortgage payoff information.

**Keep Your Servicer Information Current**

Notify your mortgage servicer if important information changes, including:

- mailing address;
- telephone number;
- email address; or
- insurance information.

Do not assume another company will automatically update your mortgage servicer.

---

**YOUR MORTGAGE PAYMENT CAN CHANGE**

A common misconception is:

**“I have a fixed-rate mortgage, so my mortgage payment can never change.”**

That is not necessarily true.

With a fixed-rate mortgage, the **principal and interest portion** generally remains the same for the scheduled term of the loan.

However, your **total monthly payment** can change when other components change.

**Understanding PITI**

A mortgage payment may include:

**P — Principal**
The portion applied toward repayment of the amount borrowed.

**I — Interest**
The cost of borrowing the money.

**T — Taxes**
Property taxes that may be collected monthly through an escrow account.

**I — Insurance**
Homeowners insurance and, when applicable, mortgage insurance or other required coverage.

**Example**

| Payment Component | Year 1 | Year 2 |
|---|---|---|
| Principal & Interest | $1,850 | $1,850 |
| Property Taxes | $425 | $475 |
| Homeowners Insurance | $175 | $200 |
| **Estimated Monthly Payment** | **$2,450** | **$2,525** |

In this example, the mortgage rate did not change.

The principal and interest payment did not change.

But the homeowner's total payment increased by **$75 per month** because taxes and insurance increased.

**What Can Change Your Monthly Payment?**

**Fixed-rate loan**

Principal & Interest
↓
Usually remains scheduled/fixed

Property Taxes
↓
Can increase or decrease

Homeowners Insurance
↓
Can increase or decrease

Mortgage Insurance
↓
May change or terminate depending on loan type and circumstances

Escrow Shortage/Deficiency
↓
Can temporarily increase the required monthly payment

**Result: Your total mortgage payment may change even when your interest rate does not.**

---

## UNDERSTANDING YOUR ESCROW ACCOUNT

Many homeowners pay property taxes and homeowners insurance through an **escrow account** maintained by their mortgage servicer.

Instead of paying a large property tax or insurance bill at one time, a portion of the anticipated expense is generally collected with your monthly mortgage payment.

### How Escrow Works

**Monthly Mortgage Payment**

→ Principal & Interest

→ Escrow Deposit

→ Property Taxes

→ Homeowners Insurance

The servicer holds the escrow funds and makes the applicable tax and insurance payments when they become due.

**Escrow Is Not an Extra Fee**

The money placed into escrow is generally being collected to pay expenses you would otherwise be responsible for paying directly.

Even if you do not have an escrow account, **you are still responsible for property taxes and homeowners' insurance.**

---

**THE ANNUAL ESCROW ANALYSIS**

Your mortgage servicer generally reviews your escrow account periodically—commonly each year—to determine whether the amount being collected is sufficient for anticipated taxes and insurance.

This review is commonly called an **escrow analysis**.

The servicer compares:

**Expected Escrow Expenses**

versus

**Expected Escrow Collections**

The analysis may result in:

**ESCROW SURPLUS**

The account contains more money than required based on the servicer's calculations.

Depending on applicable requirements and the amount involved, you may receive a refund or adjustment.

**ESCROW SHORTAGE**

Your escrow account has less money than projected to meet future obligations.

The shortage may be collected over future mortgage payments or, depending on the circumstances and servicer options, you may be able to pay some or all of the shortage separately.

**ESCROW DEFICIENCY**

The escrow balance falls below the amount necessary to cover required disbursements.

Your servicer will explain how the deficiency will be handled.

**Example: How an Escrow Change Affects Your Payment**

Suppose your annual property taxes increase by **$600**.

$600 ÷ 12 months = **$50 additional monthly escrow requirement**

If there is also a prior-year escrow shortage of $600 that is being recovered over 12 months:

$600 ÷ 12 = **$50 per month**

Your payment could temporarily increase by approximately:

**$50 new tax requirement + $50 shortage repayment = $100/month**

This is why homeowners can experience a noticeable payment increase even though they have a fixed interest rate.

**THA READI™ TIP:**
When you receive an escrow analysis, **do not throw it away because it looks complicated.** Compare the

old and new property tax amounts, insurance premiums, escrow balance, shortage or surplus, and new mortgage payment.

---

## PROPERTY TAXES CAN CHANGE

The property taxes shown when you purchase your home should not automatically be viewed as a permanent amount.

Taxes may change because of:

- changes in assessed property value;
- local tax rate changes;
- reassessment;
- new construction or improvements;
- expiration of an exemption;
- changes in owner-occupancy status;
- changes in available tax relief programs; or
- other state or local tax rules.

### Pay Special Attention After Purchasing a Home

The taxes paid by the previous homeowner may not necessarily represent what **you** will pay.

The prior owner may have had:

- a senior exemption;
- veteran-related benefits;
- homestead or owner-occupancy benefits;
- tax abatements;
- assessment caps; or
- other exemptions for which you may not qualify.

Conversely, **you may qualify for exemptions that must be applied for after purchasing the property.**

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## HOMEOWNER ACTION ITEM

After closing, identify your local taxing authority and determine:

☐ How your property is assessed
☐ When property taxes are due
☐ Whether your taxes are escrowed
☐ Whether homeowner exemptions are available
☐ Whether an application is required
☐ When applications are due
☐ How you will be notified of reassessments
☐ How assessment appeals work

**Important:** Receiving a property tax bill does not necessarily mean your servicer failed to pay it. Some jurisdictions send informational copies directly to homeowners even when taxes are escrowed. Verify before making a duplicate payment.

---

## HOMEOWNERS INSURANCE AFTER CLOSING

Your homeowners insurance is another continuing responsibility.

Do not simply purchase a policy for closing and forget about it.

Your insurance needs may change as:

- rebuilding costs increase;
- you renovate the property;
- you purchase valuable personal property;
- your household changes;
- insurance premiums increase;
- deductibles change; or
- certain risks become more important.

Review your homeowners insurance policy at least annually and whenever you make substantial improvements to the property.

**Ask Yourself:**

☐ Is my coverage still adequate?

☐ Has my deductible changed?

☐ Did my premium increase significantly?

☐ Are there risks that require separate coverage?

☐ Does my insurer have my mortgage servicer's correct information?

☐ Does my mortgage servicer have my current insurance information?

Remember that a standard homeowners policy does not necessarily cover every type of loss. Coverage varies by policy, property, location, and insurer.

---

**WHAT HAPPENS IF YOUR LOAN SERVICING IS TRANSFERRED?**

Do not panic if you receive a letter saying:

**“Your mortgage servicing is being transferred.”**

Mortgage servicing transfers are common.

A servicing transfer generally means the company responsible for collecting and administering your mortgage payments is changing.

It does **not**, by itself, mean:

- you did something wrong;
- your loan is delinquent;
- you are being refinanced;
- your interest rate is changing; or
- you need to obtain a new mortgage.

**What May Change?**

Your:

- payment mailing address;
- online account portal;
- automatic payment instructions;
- customer service contact;
- loan/account reference information; and
- procedures for submitting certain requests

may change.

The contractual terms of your mortgage do not simply change because servicing was transferred.

**Protect Yourself From Servicing-Transfer Fraud**

Mortgage servicing changes can create an opportunity for scammers.

Before sending money to a new company:

☐ Read the servicing-transfer notices carefully
☐ Compare information from the prior and new servicer
☐ Verify contact information independently
☐ Confirm the effective date of the transfer
☐ Update automatic payments only after verification
☐ Keep copies of all correspondence
☐ Review your first statement from the new servicer

**Never send a mortgage payment solely because of an unexpected text message, email, telephone call, or wiring instruction.**

---

**BUILD A HOME MAINTENANCE FUND**

One of the biggest differences between renting and owning is simple:

**When something breaks, the homeowner is usually responsible for fixing it.**

There is no universal amount that every homeowner should save for maintenance. Costs depend on the home's:

- age;
- size;
- condition;
- construction;
- location;
- systems;
- appliances; and
- previous maintenance.

Instead of relying on one rigid rule, build a reserve appropriate for **your home and financial situation.**

**Homeownership Reserve Strategy**

Consider maintaining separate savings categories:

| Reserve | Purpose |
|---|---|
| **Emergency Fund** | Job loss, income disruption, medical or other unexpected financial emergencies |
| **Home Maintenance Fund** | Routine maintenance and smaller repairs |
| **Major Repair Reserve** | HVAC, roof, plumbing, electrical, appliances and other major systems |

| | |
|---|---|
| **Insurance Deductible Reserve** | Helps ensure you can cover your deductible following a covered loss |

**The True Cost of Homeownership**

Your housing cost is more than:

**Mortgage Payment**

It can also include:

**Mortgage Payment**

- Utilities
- Maintenance
- Repairs
- HOA/Condo Fees
- Insurance Changes
- Property Tax Changes
- Major System Replacement
  =
  **TRUE HOMEOWNERSHIP COST**

---

**PLAN FOR MAJOR HOME SYSTEMS**

Major repairs are usually easier to manage when they are anticipated rather than treated as completely unexpected.

Create a simple home inventory.

| Home Component | Approximate Age | Current Condition | Estimated Replacement Timing | Savings Started? |
|---|---|---|---|---|
| Roof | ______ | ______ | ______ | ☐ |

| | | | | |
|---|---|---|---|---|
| HVAC | _____ | _____ | _____ | ☐ |
| Water Heater | _____ | _____ | _____ | ☐ |
| Refrigerator | _____ | _____ | _____ | ☐ |
| Range/Oven | _____ | _____ | _____ | ☐ |
| Washer/Dryer | _____ | _____ | _____ | ☐ |
| Windows | _____ | _____ | _____ | ☐ |
| Plumbing | _____ | _____ | _____ | ☐ |
| Electrical | _____ | _____ | _____ | ☐ |

The goal is not to predict exactly when something will fail.

The goal is to prevent a predictable home repair from becoming a financial emergency.

---

## A SIMPLE HOME MAINTENANCE CALENDAR

Different homes require different maintenance, but a basic schedule can help you establish good habits.

| Frequency | Examples of Items to Review |
|---|---|
| **Monthly** | HVAC filters as appropriate, leaks, unusual moisture, smoke/CO alarms, visible plumbing issues |
| **Seasonally** | Gutters, exterior drainage, HVAC performance, landscaping, weather-related preparation |
| **Semiannually** | Safety devices, caulking, exterior condition, plumbing connections |
| **Annually** | HVAC servicing as appropriate, roof/exterior visual review, insurance review, property tax review |
| **As Needed** | Appliance maintenance, pest treatment, plumbing, electrical, structural or safety concerns |

Your home's age, equipment manufacturers, climate, HOA requirements, and professional recommendations should guide the actual schedule.

## HOA AND CONDOMINIUM RESPONSIBILITIES

If your property is located within a homeowners association or condominium association, your obligations do not end with your mortgage payment.

You may be responsible for:

- monthly, quarterly, or annual assessments;
- special assessments;
- association insurance requirements;
- maintenance responsibilities;
- architectural approval requirements;
- community rules;
- parking restrictions;
- rental restrictions; and
- changes in association fees.

### What Is a Special Assessment?

A special assessment is an additional charge that an association may impose to fund expenses that are not sufficiently covered by its regular operating budget or reserves.

Depending on the community, a special assessment could potentially be substantial.

Homeowners should review association communications and financial information instead of ignoring notices because the mortgage itself is current.

---

## PROTECT YOUR CREDIT AFTER CLOSING

You made it through mortgage underwriting—but maintaining healthy credit remains important.

Your credit can affect your ability to:

- refinance;
- obtain a home equity loan or line of credit;
- purchase another property;
- finance a vehicle;
- obtain other credit; or
- qualify for favorable financing terms.

**Continue the Habits That Helped You Become Mortgage READI™**

✓ Pay obligations on time
✓ Keep revolving balances manageable
✓ Monitor your credit reports
✓ Review accounts for unauthorized activity
✓ Avoid unnecessary debt
✓ Maintain emergency savings
✓ Keep important financial records organized

Closing should not be viewed as permission to immediately take on substantial new debt.

---

**WHAT IF YOU BEGIN HAVING TROUBLE MAKING YOUR PAYMENT?**

Financial circumstances can change.

Job loss, reduced income, illness, divorce, unexpected expenses, or other events can make a mortgage payment difficult.

**Do not simply ignore the problem.**

Contact your mortgage servicer as early as possible.

Depending on the loan, servicer, investor, circumstances, and eligibility requirements, various assistance or loss-mitigation options may exist.

The earlier you communicate, the more time you may have to understand available options.

**WARNING SIGNS**

Take action if you begin:

- using credit cards for routine mortgage payments or necessities;
- consistently overdrawing accounts;
- falling behind on utilities;
- borrowing repeatedly to make the mortgage payment;
- missing payments; or
- avoiding mortgage statements because you cannot pay them.

**Ask for help before a temporary financial problem becomes a larger housing problem.**

Be cautious of companies promising guaranteed foreclosure prevention, guaranteed loan modifications, or demanding large upfront fees to "save" your home.

---

**SHOULD YOU PAY EXTRA TOWARD YOUR MORTGAGE?**

Some homeowners choose to pay additional principal to reduce their mortgage balance faster.

Additional principal may potentially:

- reduce total interest paid;
- shorten the effective repayment period; and
- build equity faster.

But paying extra toward your mortgage should be considered alongside your broader financial situation.

Before committing significant extra money to principal, consider:

- emergency savings;
- high-interest debt;

- retirement contributions;
- anticipated home repairs;
- other financial goals; and
- whether your loan has any relevant restrictions or prepayment considerations.

If making an extra payment, verify how your servicer applies additional funds and ensure they are credited as intended.

---

## UNDERSTANDING HOME EQUITY

**Home equity** is generally the difference between your home's value and the debt secured by the property.

**Simple Example**

Estimated Home Value: **$400,000**

Mortgage Balance: **– $310,000**

Estimated Equity: **$90,000**

**Equity Can Grow Through:**

**Mortgage Principal Reduction**
As you repay principal, your loan balance generally decreases.

**Property Appreciation**
Your home's market value may increase.

**Home Improvements**
Some improvements may contribute to value, although the amount spent does not guarantee an equal increase in market value.

**But Remember:**

**Equity is not guaranteed.**

Home values can rise or fall, and the amount you could actually receive from a sale would also be affected by outstanding liens and transaction costs.

---

## REFINANCING: WHEN DOES IT MAKE SENSE?

You may eventually hear:

**“Rates dropped—you should refinance!”**

A lower interest rate can be attractive, but a refinance should be evaluated based on more than the advertised rate.

Refinancing means replacing your existing mortgage with a new loan.

Potential reasons homeowners consider refinancing include:

- obtaining a lower interest rate;
- reducing a monthly payment;
- changing the loan term;
- changing loan type;
- accessing equity;
- removing or changing certain mortgage-related costs when eligible; or
- accomplishing another financial objective.

### A Refinance Is a New Mortgage Transaction

You may have:

- credit qualification;
- income documentation;
- asset verification;
- property valuation requirements;

- title requirements;
- underwriting;
- closing costs; and
- new loan terms.

**THE REFINANCE BREAK-EVEN TEST**

Suppose refinancing costs you:

**$5,000**

and reduces your monthly payment by:

**$200**

Approximate break-even period:

**$5,000 ÷ $200 = 25 months**

If you expect to keep the new mortgage significantly longer than the break-even period, the refinance may warrant further evaluation.

But payment savings alone do not tell the entire story.

You should also compare:

| Existing Mortgage | Proposed Refinance |
|---|---|
| Current balance | New loan amount |
| Current interest rate | New interest rate |
| Remaining loan term | New loan term |
| Current monthly P&I | New monthly P&I |
| Remaining interest expense | Projected interest expense |
| Current mortgage insurance | New mortgage insurance, if any |
| — | Closing costs |

| | |
|---|---|
| — | Break-even period |

**Beware of "Starting the Clock Over"**

Imagine you have already paid several years on a 30-year mortgage and refinance into a new 30-year loan.

Your monthly payment may decrease, but you have also potentially extended the period over which you will repay mortgage debt.

A lower payment does **not automatically mean a lower total cost.**

**THA READI™ TIP:**
Don't ask only, **"How much will this lower my payment?"**
Also ask, **"What will this loan cost me, how long will I keep it, and what financial goal does refinancing accomplish?"**

---

**CASH-OUT REFINANCING AND HOME EQUITY**

Home equity can eventually become a financial resource, but it should be used carefully.

A cash-out refinance or other home-equity financing can convert a portion of your equity into borrowed funds.

Remember:

**Equity converted into debt is no longer debt-free equity.**

Using home equity may increase:

- the balance secured by your home;
- monthly financial obligations;
- total interest expense; and
- potentially the length of time you carry housing debt.

Your home should not automatically become the funding source for every major purchase.

## KEEP YOUR IMPORTANT HOMEOWNERSHIP DOCUMENTS

Create a permanent digital and/or physical **Homeownership File.**

Keep:

☐ Closing Disclosure
☐ Promissory Note
☐ Deed or recorded ownership documents
☐ Mortgage/Deed of Trust documents
☐ Title insurance policy
☐ Homeowners insurance policies
☐ Property tax records
☐ Escrow analyses
☐ Mortgage statements
☐ Servicing-transfer notices
☐ HOA/Condo documents
☐ Home inspection report
☐ Property survey, if applicable
☐ Home warranties
☐ Appliance warranties/manuals
☐ Major repair receipts
☐ Renovation/improvement records
☐ Permits and contractor information
☐ Relevant tax documentation

Some of these records may become important years later when you refinance, sell, make an insurance claim, document improvements, or resolve a property-related issue.

**BE ALERT FOR POST-CLOSING SCAMS**

Home purchases can generate public records and marketing activity.

After closing, you may receive official-looking letters or solicitations regarding:

- mortgage protection;
- deed copies;
- warranties;
- refinancing;
- home-equity products;
- property services; or
- mortgage-related offers.

An envelope containing your lender's name, loan amount, property address, or other information does **not automatically mean it came from your lender or mortgage servicer.**

**Before Responding:**

**STOP → VERIFY → RESPOND**

**STOP**
Do not immediately send money or personal information.

**VERIFY**
Contact your servicer, insurer, taxing authority, HOA, or other organization using independently verified contact information.

**RESPOND**
Take action only after confirming that the request is legitimate.

---

**YOUR ANNUAL HOMEOWNERSHIP CHECKUP**

Just as you reviewed your finances before purchasing your home, conduct a **Homeownership READI™ Checkup** at least once each year.

| Category | Annual Question |
|---|---|
| Mortgage | Do I understand my current balance, rate, payment and remaining term? |
| Escrow | Did my taxes or insurance change? |
| Property Taxes | Am I receiving every exemption for which I qualify? |
| Insurance | Is my coverage still appropriate? |
| Emergency Savings | Can I absorb an unexpected expense? |
| Maintenance | What major repairs may be approaching? |
| Credit | Am I maintaining strong credit habits? |
| Equity | Has my estimated equity position changed? |
| HOA/Condo | Have assessments, rules or fees changed? |
| Financial Goals | Does my current mortgage still align with my long-term plans? |

---

**YOUR FIRST-YEAR HOMEOWNER ROADMAP**

**CLOSING DAY**

**Get the Keys**

↓

**FIRST 30–60 DAYS**

**Confirm Servicer + Make First Payment**

↓

**FIRST 3–6 MONTHS**

**Build/Replenish Emergency & Home Repair Reserves**

↓

**THROUGHOUT THE YEAR**

**Maintain the Property + Monitor Mortgage Statements**

↓

**TAX & INSURANCE CYCLES**

**Review Assessments, Exemptions, Coverage & Premiums**

↓

**ESCROW ANALYSIS**

**Understand Any Payment Change**

↓

**ANNUAL CHECKUP**

**Review Mortgage + Credit + Equity + Maintenance + Financial Goals**

↓

**LONG-TERM**

**Evaluate Refinancing, Equity & Future Housing Decisions When Appropriate**

---

**THE THA POST-CLOSING READI™ CHECKLIST**

Before you consider yourself fully settled into homeownership, make sure you can answer **YES** to these questions:

## MY MORTGAGE

☐ I know who my mortgage servicer is.
☐ I know when my payment is due.
☐ I know how to access my mortgage account.
☐ I understand the components of my payment.
☐ I understand whether I have an escrow account.
☐ I know my interest rate and loan term.
☐ I know how to identify a servicing-transfer notice.

## MY PROPERTY

☐ I know who collects my property taxes.
☐ I researched homeowner tax exemptions available to me.
☐ I understand my homeowners insurance coverage.
☐ I know my insurance deductible.
☐ I understand my HOA/condo obligations, if applicable.

## MY MONEY

☐ I have or am building an emergency fund.
☐ I have a plan for home maintenance expenses.
☐ I am continuing to monitor my credit.
☐ I understand that my mortgage payment can change.
☐ I will evaluate the total cost—not just the payment—before refinancing.

## MY RECORDS

☐ I saved my Closing Disclosure.
☐ I saved my loan and title documents.
☐ I keep insurance and property tax records.
☐ I retain major home repair and improvement documentation.

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## FINAL READINESS MESSAGE

Buying the home required preparation.

**Keeping the home requires preparation too.**

Successful homeownership means understanding that taxes change, insurance premiums change, repairs happen, mortgage servicing can change, financial circumstances evolve, and new financing opportunities may eventually appear.

The goal is not to predict every expense or prevent every surprise.

The goal is to be financially and operationally prepared enough that normal homeownership events do not automatically become financial emergencies.

**Remember:**

**You can't control every cost that comes with homeownership—but you can control how READI™ you are for it.**

---

## APPENDICES

### Your Homebuyer READI™ Reference Tools

The mortgage process involves a lot of information, documents, people, and decisions.

These appendices are designed to turn what you learned throughout the **THA Homebuyer Readiness Blueprint** into practical tools you can use before and during your homebuying journey.

**Use them. Write on them. Take them to meetings. Ask the questions.**

Being READI™ does not mean knowing everything.

**It means knowing what to ask, what to prepare, and what to watch for.**

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## APPENDIX A

## BORROWER READINESS CHECKLIST

### Am I Mortgage READI™?

Use this checklist **before applying for a mortgage** to identify areas that are ready and areas that may need attention.

---

### CREDIT READINESS

☐ I have reviewed my credit reports.

☐ I understand that the credit score I see through a consumer app may not be the same scoring model used for mortgage lending.

☐ I know my approximate mortgage credit profile.

☐ I have reviewed my reports for incorrect information.

☐ I understand any late payments appearing on my credit.

☐ I know whether I have collections or charge-offs.

☐ I know whether I have judgments, liens, bankruptcies, or foreclosures that may need to be discussed with my lender.

☐ I know my current credit-card balances.

☐ I have avoided unnecessarily opening new credit.

☐ I am making all payments on time.

☐ I understand that paying off or closing an account can have consequences and will speak with my lender before making major credit changes.

**CREDIT ITEMS I NEED TO ADDRESS:**

---

**INCOME READINESS**

☐ I know my gross monthly income before taxes.

☐ I understand which portions of my income may be used for mortgage qualification.

☐ My employment history is documented.

☐ I have recent paystubs available.

☐ I have W-2s and/or other applicable income documents available.

**I RECEIVE:**

☐ Salary

☐ Hourly Income

☐ Overtime

☐ Bonus

☐ Commission

☐ Self-Employment Income

☐ Rental Income

☐ Retirement/Pension Income

☐ Social Security

☐ Child Support/Alimony I want considered

☐ Other: ______________________________

**If I Receive Variable Income:**

☐ I understand that receiving income does not automatically mean all of it can be used to qualify.

☐ I am prepared to provide historical documentation.

☐ I understand the lender may calculate an average rather than simply using my most recent paycheck.

**EMPLOYMENT**

Current Employer: ______________________________________

Position: _______________________________________________

Start Date: _____________________________________________

Years in Current Field/Industry: _________________________

**DEBT READINESS**

I know my approximate monthly obligations.

| OBLIGATION | BALANCE | MONTHLY PAYMENT |
|---|---|---|
| Auto Loan | $________ | $________ |
| Credit Cards | $________ | $________ |
| Student Loans | $________ | $________ |
| Personal Loans | $________ | $________ |
| Child Support/Alimony | — | $________ |
| Other | $________ | $________ |
| Other | $________ | $________ |
| **TOTAL** | | **$________** |

☐ I understand my approximate debt-to-income ratio.

☐ I have disclosed all debts to my lender.

☐ I am not planning to finance a vehicle or other major purchase before closing.

---

**ASSET READINESS**

**Funds Currently Available**

| ACCOUNT | CURRENT BALANCE |
|---|---|
| Checking | $________ |
| Savings | $________ |
| Money Market | $________ |
| Investment Account | $________ |

| | |
|---|---|
| Retirement Account | $_________ |
| Other | $_________ |
| **TOTAL** | **$_________** |

☐ I understand the difference between **cash to close** and **reserves**.

☐ My funds are held in accounts I can document.

☐ I can explain significant recent deposits.

☐ I am not holding substantial home-purchase funds as undocumented cash.

☐ I understand that moving money between accounts during the mortgage process may create additional documentation requirements.

**I EXPECT TO USE:**

☐ Personal Funds

☐ Gift Funds

☐ Down Payment Assistance

☐ Grant Funds

☐ Employer Assistance

☐ Proceeds From Sale of Another Property

☐ Sale of Assets

☐ Other: ________________________________

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**SAVINGS READINESS**

**I AM PREPARING FOR MORE THAN THE DOWN PAYMENT.**

Estimated Down Payment: $________________

Estimated Closing Costs: $________________

Estimated Prepaids/Escrows: $________________

Estimated Moving Costs: $________________

Emergency Fund After Closing: $________________

Home Maintenance Reserve: $________________

**Estimated Total Funds Goal:**

**$________________**

**DOCUMENT READINESS**

I have access to:

☐ Government-issued identification

☐ Social Security information

☐ Recent paystubs

☐ W-2s

☐ Tax returns, if required

☐ Recent bank statements — all pages

☐ Investment/retirement statements, if applicable

☐ Current lease/rental information, if requested

☐ Divorce decree/separation agreement, if applicable

☐ Child support/alimony documentation, if applicable

☐ Bankruptcy documentation, if applicable

☐ Gift-fund information, if applicable

☐ Self-employment documents, if applicable

☐ Other documentation relevant to my finances

---

**BUDGET READINESS**

The amount a lender says I **qualify for** is not automatically the amount I should **spend**.

**My Comfort Zone**

Maximum monthly housing payment I am comfortable with:

**$________________**

My estimated monthly utilities:

$________________

HOA/Condo Fees:

$________________

Home Maintenance Savings:

$________________

Other New Homeownership Costs:

$________________

**My Estimated TRUE Monthly Housing Budget:**

**$________________**

---

**MY READINESS ACTION PLAN**

**READY NOW**

---

**NEEDS ATTENTION**

---

**QUESTIONS FOR MY LENDER**

---

**MY TARGET HOMEBUYING DATE**

---

## APPENDIX B

## QUESTIONS TO ASK YOUR LOAN OFFICER

Your loan officer should be more than the person who quotes an interest rate.

A good mortgage conversation should help you understand **how the loan works, what it costs, what could affect approval, and what you are expected to do next.**

You do not have to ask every question below.

Use the questions that apply to your situation.

---

### BEFORE I APPLY

☐ What loan programs should I consider and why?

☐ What are the minimum requirements for each option?

☐ What mortgage credit score are you using?

☐ Which credit scoring model applies to my transaction?

☐ What is my qualifying monthly income?

☐ If I receive overtime, bonus, commission, or other variable income, how much are you able to use?

☐ What is my current debt-to-income ratio?

☐ What is the maximum DTI allowed for the programs we are considering?

☐ What down payment will I need?

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☐ What are my estimated closing costs?

☐ What is my estimated **total cash to close**?

☐ Will I need financial reserves after closing?

---

**ABOUT MY LOAN**

☐ Is this a Conventional, FHA, VA, USDA, or other loan?

☐ Is my interest rate fixed or adjustable?

☐ What is the loan term?

☐ What is my estimated principal and interest payment?

☐ What is my estimated **total payment including taxes, insurance, and mortgage insurance?**

☐ Does this loan require mortgage insurance?

☐ If so, how much?

☐ Can the mortgage insurance eventually be removed?

☐ Are there points associated with this rate?

☐ Am I receiving lender credits?

☐ Is there a prepayment penalty?

☐ Is there a balloon payment?

## ABOUT MY INTEREST RATE

☐ Is my interest rate currently locked?

☐ If not, what does it mean to float my rate?

☐ How long does the rate lock last?

☐ What happens if my closing occurs after the lock expires?

☐ Is there a cost to extend the rate lock?

☐ Does this lender offer a float-down option if rates decrease?

☐ What would it cost to buy the rate down?

☐ What is the break-even period if I pay discount points?

## ABOUT CLOSING COSTS

☐ Which fees are lender fees?

☐ Which fees are third-party fees?

☐ What are discount points?

☐ What are prepaid expenses?

☐ How much will be collected for my initial escrow account?

☐ Are there lender credits?

☐ Are seller credits permitted?

☐ Are there limits on seller concessions for my loan type?

☐ When should I expect my final cash-to-close amount?

---

**ABOUT DOWN PAYMENT ASSISTANCE**

☐ Do I appear eligible for any DPA programs?

☐ How much assistance may be available?

☐ Is the assistance a grant or a second mortgage?

☐ Does it have to be repaid?

☐ Is repayment deferred?

☐ Is any portion forgivable?

☐ Is there an occupancy period?

☐ What happens to the assistance if I sell?

☐ What happens if I refinance?

☐ Are there income limits?

☐ Are there purchase-price limits?

☐ Is homebuyer education required?

☐ Does the DPA program have a lower DTI limit or additional underwriting requirements?

☐ Is funding currently available?

---

**DURING UNDERWRITING**

☐ Who will be my primary contact?

☐ How quickly should I respond to conditions?

☐ What documents are still outstanding?

☐ Has my appraisal been ordered?

☐ Has title been ordered?

☐ Are there any property-related conditions?

☐ Are there any income concerns?

☐ Are there any asset concerns?

☐ Do I have any deposits that will need to be sourced?

☐ Will my employment be verified again before closing?

☐ Will my credit be refreshed or monitored before closing?

☐ What should I absolutely avoid doing before closing?

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**BEFORE CLOSING**

☐ Has my loan received final approval?

☐ Am I Clear to Close?

☐ What is my final cash to close?

☐ How must I deliver my closing funds?

☐ How do I independently verify wire instructions?

☐ When will I receive my Closing Disclosure?

☐ When is my first mortgage payment due?

☐ Who will service my mortgage?

☐ Will my mortgage servicing potentially be transferred?

☐ When should I expect my first escrow analysis?

**THE MOST IMPORTANT QUESTION**

Before ending a conversation with your loan officer, ask:

**"Is there anything about my current financial profile, loan, property, or documentation that could potentially create an issue if we do not address it now?"**

Then listen carefully to the answer.

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## APPENDIX C

## QUESTIONS TO ASK YOUR REALTOR®

Your Realtor® helps you navigate the real estate transaction.

Your lender handles the financing.

Those roles work together—but they are not interchangeable.

A Realtor® should not determine your mortgage qualification, and your loan officer should not interpret your real estate contract in place of your real estate professional or attorney where appropriate.

## BEFORE STARTING THE HOME SEARCH

☐ How well do you know the neighborhoods/areas I am considering?

☐ What price range should we use based on the lender's pre-approval and **my personal budget**?

☐ How competitive is the current market?

☐ How quickly are homes selling?

☐ Are sellers commonly offering concessions?

☐ Are there property types in this market that may create financing challenges?

☐ Do you have experience working with my loan type?

☐ Do you have experience with down payment assistance transactions?

## BEFORE MAKING AN OFFER

☐ How long has the property been on the market?

☐ Have there been previous contracts?

☐ Are there known property issues or disclosures I should review?

☐ Are there HOA or condominium fees?

☐ Are there pending special assessments?

☐ What property is included in the sale?

☐ Are appliances included?

☐ What is the proposed closing date?

☐ Is that closing date realistic for my financing?

☐ What earnest money is being requested?

☐ When is earnest money due?

☐ Who will hold it?

## CONTRACT CONTINGENCIES

Ask your Realtor® to explain the contract provisions that apply to your transaction, including where applicable:

☐ Financing contingency

☐ Appraisal contingency

☐ Inspection contingency

☐ Home-sale contingency

☐ HOA/Condo review period

☐ Title provisions

☐ Earnest-money provisions

☐ Closing-date requirements

☐ Seller-concession provisions

☐ Repair provisions

**Ask:**

**What happens if I cannot obtain financing?**

**What happens if the property appraises low?**

**What happens if the inspection reveals major problems?**

**What deadlines must I meet to preserve my contractual rights?**

---

**ABOUT THE PROPERTY**

☐ How old is the roof?

☐ How old is the HVAC system?

☐ How old is the water heater?

☐ Are there known structural concerns?

☐ Have there been major renovations?

☐ Were permits required/obtained where applicable?

☐ Is the property located in an HOA or condominium?

☐ Are there rental restrictions?

☐ Are there known special assessments?

☐ Are there solar panels or other financed property improvements?

☐ Are there additions or conversions that should be investigated?

---

**HOME INSPECTION**

☐ How quickly must I schedule the inspection?

☐ What is my inspection deadline?

☐ What types of inspections should I consider for this property?

Possible inspections may include:

- general home inspection;
- termite/pest;

- radon;
- sewer/septic;
- well/water;
- mold;
- structural;
- roof;
- HVAC;
- other specialty inspections.

**Ask:**

**What happens if the inspection identifies significant repairs?**

---

**IF THE APPRAISAL COMES IN LOW**

☐ What does my contract allow?

☐ Can we renegotiate the purchase price?

☐ Can the seller challenge/support reconsideration with additional comparable information?

☐ Am I required to cover an appraisal gap?

☐ Can I terminate under my contract?

☐ Could my earnest money be at risk?

Your options depend heavily on the contract.

---

**BEFORE CLOSING**

☐ When will we complete the final walk-through?

☐ What should I inspect during the walk-through?

☐ Were agreed repairs completed?

☐ Were required receipts or invoices provided?

☐ Are all contractually included appliances/fixtures still present?

☐ Has the seller removed personal belongings as agreed?

☐ When will I receive possession?

☐ When will I receive the keys?

---

## APPENDIX D

## MORTGAGE TERMINOLOGY GLOSSARY

Mortgage lending has its own language.

You should not need to work in the industry to understand your mortgage.

---

### ADJUSTABLE-RATE MORTGAGE — ARM

A mortgage whose interest rate can change according to the terms of the loan after an initial period.

**AMORTIZATION**

The process of repaying a loan through scheduled payments of principal and interest over time.

**ANNUAL PERCENTAGE RATE — APR**

A measure designed to reflect the interest rate plus certain costs of obtaining credit, expressed as an annual percentage.

**APPRAISAL**

A professional opinion of a property's market value developed for the transaction.

**APPRAISED VALUE**

The value concluded by the appraiser based on the appraisal analysis.

**ASSETS**

Financial resources such as checking, savings, investments, and eligible retirement funds.

**AUTOMATED UNDERWRITING SYSTEM — AUS**

Technology used to evaluate mortgage application information against applicable underwriting criteria.

Examples in conventional lending include **Desktop Underwriter® (DU®)** and **Loan Product Advisor® (LPA℠).**

**CASH TO CLOSE**

The final amount the borrower must provide to complete the transaction after applicable credits, deposits, financing, and other adjustments.

**CLOSING**

The process of completing the legal and financial requirements of the real estate and mortgage transaction.

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**CLOSING COSTS**

Expenses associated with obtaining the mortgage and completing the real estate transaction.

**CLOSING DISCLOSURE — CD**

A standardized disclosure providing final information about the loan terms and closing costs for covered transactions.

**COLLATERAL**

Property pledged as security for a loan.

**COMPARABLE SALES — COMPS**

Recently sold properties used as part of the analysis of a subject property's market value.

**CONDITION**

A requirement that must be satisfied or clarified before the loan can proceed or receive final approval.

**CONVENTIONAL LOAN**

A mortgage that is not insured or guaranteed by a federal government agency such as FHA, VA, or USDA.

**CREDIT REPORT**

A record containing information about a consumer's credit accounts and payment history.

**CREDIT SCORE**

A numerical representation of credit risk generated using a particular credit-scoring model.

**DEBT-TO-INCOME RATIO — DTI**

The percentage of qualifying monthly income used to meet applicable monthly debt obligations.

**Monthly Qualifying Debt ÷ Gross Qualifying Monthly Income = DTI**

**DEED**

A legal instrument used to transfer an ownership interest in real property.

**DEED OF TRUST**

A security instrument used in certain states to secure a mortgage loan.

**DISCOUNT POINTS**

Upfront amounts paid in connection with obtaining a particular interest rate. One point generally equals 1% of the loan amount.

**DOWN PAYMENT**

The portion of the purchase price not financed by the first mortgage, subject to the structure of the transaction.

**DOWN PAYMENT ASSISTANCE — DPA**

Financial assistance designed to help eligible buyers with down payment and/or closing expenses.

**EARNEST MONEY DEPOSIT — EMD**

A good-faith deposit made in connection with the purchase contract.

**EQUITY**

The difference between the property's market value and debt secured by the property.

**ESCROW ACCOUNT**

An account maintained by a mortgage servicer to collect and pay certain property-related expenses such as taxes and homeowners’ insurance.

**FHA LOAN**

A mortgage insured by the Federal Housing Administration.

**FIXED-RATE MORTGAGE**

A mortgage where the note interest rate remains fixed according to the loan terms.

**GIFT FUNDS**

Money provided by an eligible donor that meets the applicable loan program's gift requirements.

**HOMEOWNERS INSURANCE**

Insurance providing property and liability coverage subject to the terms of the policy.

**INTEREST**

The cost charged for borrowing money.

**INTEREST RATE**

The percentage rate used to calculate interest on the mortgage principal.

**INVESTOR**

The entity that owns or ultimately acquires the mortgage loan or mortgage-backed interest. The investor may be different from the company servicing the loan.

**LENDER CREDIT**

A credit provided by the lender that offsets certain closing costs, often in connection with the loan's pricing.

**LIEN**

A legal claim or security interest against property.

**LOAN ESTIMATE — LE**

A standardized disclosure providing estimated mortgage terms and settlement costs for covered transactions.

**LOAN-TO-VALUE — LTV**

The relationship between the mortgage amount and the property's applicable value.

**Loan Amount ÷ Property Value = LTV**

**MORTGAGE**

A loan secured by real property; the term is also commonly used to refer to the security instrument depending on jurisdiction.

**MORTGAGE INSURANCE — MI**

Insurance protecting the lender or investor against certain losses if the borrower defaults. Requirements depend on the loan program.

**NOTE / PROMISSORY NOTE**

The borrower's legal promise to repay the mortgage according to stated terms.

**ORIGINATION**

The process through which a mortgage loan is applied for, processed, underwritten, and prepared for closing.

**PITI**

An acronym commonly used for:

**Principal + Interest + Taxes + Insurance**

**POINT**

One percent of the loan amount.

**PRE-APPROVAL**

A preliminary lender assessment based on financial information reviewed at that point in time. It is not final mortgage approval.

**PREPAIDS**

Certain expenses collected at closing for costs such as prepaid interest, homeowners insurance, and property taxes.

**PRINCIPAL**

The amount of loan balance owed, excluding interest.

**PRIVATE MORTGAGE INSURANCE — PMI**

Mortgage insurance commonly associated with certain conventional mortgages where required.

**PROCESSOR**

The mortgage professional who helps collect, organize, verify, and prepare documentation for underwriting.

**RATE LOCK**

An agreement that locks an interest rate for a specified period subject to its terms.

**RESERVES**

Eligible financial assets remaining after closing.

**SELLER CONCESSION / SELLER CREDIT**

An amount the seller agrees to contribute toward eligible buyer costs, subject to the contract and applicable loan-program limits.

**SERVICER**

The company responsible for administering the mortgage after closing, including collecting payments and managing applicable escrow accounts.

**SUBORDINATE FINANCING**

Financing secured by the property that is junior to the first mortgage, such as certain DPA second mortgages.

**TITLE**

The legal ownership interest in real property.

**TITLE INSURANCE**

Insurance against certain covered title defects, claims, or losses subject to policy terms.

**UNDERWRITER**

The mortgage professional responsible for determining whether the borrower, transaction, and property satisfy applicable underwriting requirements.

**UNDERWRITING**

The process of evaluating the borrower's credit, capacity, capital, collateral, and overall loan eligibility.

**USDA LOAN**

An eligible mortgage guaranteed through a U.S. Department of Agriculture housing program.

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**VA LOAN**

An eligible mortgage guaranteed by the U.S. Department of Veterans Affairs.

**VERIFICATION OF EMPLOYMENT — VOE**

A process used by the lender to verify employment and, when applicable, employment-related information.

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## APPENDIX E

## HOMEBUYER EDUCATION REQUIREMENTS

You may be told:

**"You need to take a homebuyer education course."**

But not every buyer has the same education requirement.

Whether homebuyer education is required depends on:

✓ mortgage program
✓ down payment assistance program
✓ first-time homebuyer status
✓ lender/investor requirements
✓ state or local housing program
✓ grant requirements
✓ property/occupancy circumstances

---

## HOMEBUYER EDUCATION VS. HOUSING COUNSELING

These terms are sometimes used interchangeably, but they are not necessarily the same service.

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## HOMEBUYER EDUCATION

Generally provides structured education covering topics such as:

- budgeting;
- credit;
- mortgage financing;
- shopping for a home;
- insurance;
- closing;
- avoiding predatory practices;
- maintaining the home after purchase.

It may be:

✓ online
✓ virtual
✓ classroom-based

depending on program requirements.

---

## HOUSING COUNSELING

Housing counseling is generally more individualized.

A housing counselor may work directly with a consumer regarding:

- credit;
- budgeting;
- debt;
- affordability;
- barriers to homeownership;
- action planning;
- mortgage delinquency or other housing concerns.

Some programs specifically require counseling through a **HUD-approved housing counseling agency** or another approved provider.

---

## WHO MAY REQUIRE HOMEBUYER EDUCATION?

### CONVENTIONAL PROGRAMS

Certain conventional affordable-lending products may require homeownership education based on borrower circumstances.

Examples can include programs offered through:

- Fannie Mae;
- Freddie Mac;
- individual lenders; and
- community lending initiatives.

The exact requirement should be verified for the specific loan.

---

### FHA

FHA financing itself does not create one universal homebuyer-education requirement for every FHA borrower.

However, education or counseling may be required by:

- a DPA program;
- state/local housing agency;
- lender program;
- grant;
- other assistance source.

### VA

A standard VA-guaranteed purchase mortgage does not impose one universal homebuyer-education class requirement on every eligible borrower.

An assistance program layered with the VA loan may have its own requirement.

### USDA

Education/counseling requirements depend on the particular USDA program and transaction.

Do not assume all USDA products have identical requirements.

### DOWN PAYMENT ASSISTANCE

This is where buyers frequently encounter mandatory homebuyer education.

A DPA program may require:

✓ approved course provider
✓ specific course length
✓ certificate of completion
✓ course completion before a particular milestone
✓ individual counseling
✓ HUD-approved agency
✓ certificate dated within a certain period

## ASK THESE QUESTIONS BEFORE TAKING A COURSE

Do not simply search online and take the first class you find.

Ask your lender or assistance provider:

☐ Is homebuyer education required for my program?

☐ Which course providers are accepted?

☐ Must the provider be HUD-approved?

☐ Can I complete the course online?

☐ Is a live course required?

☐ Is individual counseling required?

☐ How many hours must the course be?

☐ When must it be completed?

☐ How long is my certificate valid?

☐ Does every borrower need to complete the course?

☐ Is there a fee?

☐ Where should the certificate be sent?

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**MY HOMEBUYER EDUCATION RECORD**

**Program Requiring Education:**

---

**Approved Provider:**

---

**Course Name:**

---

**Course Format:**
☐ Online
☐ Virtual Live
☐ In Person
☐ Individual Counseling

**Required Hours:**

---

**Course Deadline:**

---

**Completion Date:**

---

**Certificate Expiration, if applicable:**

---

**Certificate Submitted to:**

---

☐ Certificate saved in my homebuying file

☐ Lender confirmed receipt

☐ DPA provider confirmed receipt, if applicable

---

**DON'T WAIT UNTIL THE WEEK OF CLOSING**

If education is required, waiting until the last minute can create an unnecessary closing delay.

Your certificate may be required before:

- DPA approval;
- loan approval;
- commitment;
- closing; or
- another program milestone.

**COMPLETE REQUIRED EDUCATION EARLY.**

---

**YOUR FINAL READI™ CHECK**

Before beginning your home search, can you answer these five questions?

**1. WHAT CAN I COMFORTABLY AFFORD?**

$__________________

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**2. HOW MUCH MONEY DO I EXPECT TO NEED?**

$________________

**3. WHICH LOAN PROGRAM AM I CONSIDERING?**

---

**4. DO I PLAN TO USE DOWN PAYMENT ASSISTANCE?**

☐ Yes ☐ No ☐ Still Researching

**5. IS HOMEBUYER EDUCATION REQUIRED?**

☐ Yes ☐ No ☐ Need to Confirm

---

**THE THA HOMEBUYER READINESS BLUEPRINT**

**FINAL READINESS REMINDER**

You do not have to become a mortgage expert to become a prepared homebuyer.

But you should understand:

**your credit**

**your income**

**your debts**

**your assets**

**your loan**

**your payment**

**your cash to close**

**your contract**

**your responsibilities**

and most importantly—

**WHEN TO ASK QUESTIONS.**

A mortgage file contains hundreds of pieces of information.

Your job is not to underwrite your own loan.

Your job is to enter the process informed, organized, financially prepared, and ready to respond when something is needed.

**That is Homebuyer Readiness.**

**And remember:**

**You can't control every condition that comes with underwriting—but you can control how READI™ you are for it.**

**Mortgage Readiness Starts Here.™**