# YOUR STEP-BY-STEP HOMEBUYERS GUIDE

From Initial Application to Closing

REAL ESTATE CONNECTION

***Your Real Estate Needs, Your Real Estate Connection***

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# HI THERE!

In this guide, you will learn about one of the most important steps in the home buying process - obtaining a mortgage. The materials in this Guide will take you from the initial application to closing, and they'll even address the first months of homeowners to show you the kinds of things you need to do to keep your home. Knowing what to expect will give you. the confidence you need to make the best decisions about your home purchase.

# TABLE OF CONTENTS

# REC HOMEBUYING PROCESS

| 6 MONTHS | 3 MONTHS | 2 MONTHS | 1 MONTH | 1-2 WEEKS | FINAL |
|---|---|---|---|---|---|
| Review Finances<br>Get pre-approval | Select Buyer's Agent<br>Begin Home Search | Resubmit pre approval<br>Make Offer and Negotiate | Get Home Inspection<br>Order Appraisal | Loan Approval<br>Final walk-through | Pay Closing Cost<br>Sign paperwork<br>Get your keys! |

## Get Ready

- ☐ Have a Stable Job
- ☐ Good Credit
- ☐ Prepared to put 3 - 20% down

## Create Home List

- ☐ Determine the location, type, and style
- ☐ Determine bedroom, bathroom, amenities
- ☐
- ☐ Figure out how much you can afford.
- ☐ Gather documents for financing - Paystubs, taxes, proof of employment (if applicable).

## Get Out Looking

- ☐ Connect with REC Real Estate agent and begin looking at homes.

## Get Pre-Approved

- ☐ Get Pre-Approved for a home loan and obtain a pre-approval letter. This letter is typically required before viewing multiple properties or making a non-cash offer.

## Establish your HOME

- ☐ Find a home that captures your heart.
- ☐ Put in an offer for your home.
- ☐ Have the seller accept or reject your offer.
- ☐
  Ratify the contract or find another..

## Under Contract

- ☐ Have Realtor deposit EMD in title escrow.
- ☐ Finalize sending mortgage documents for final approval.
- ☐ Order and complete Home Inspection, review results.
- ☐ Order Appraisal and review results.

## Closing

- ☐ Get final Clear to Close.
- ☐ Scheduling Closing (Bring ID and Down Payment)
- ☐ Contact utility company to transfer Utilities
- ☐ Ensure Mail is forwarded
- ☐ Ensure cable, internet and other are transferred.
  - MOVE IN!!!

# OVERVIEW OF HOME BUYING PROCESS

| 6 MONTHS | 3 MONTHS | 2 MONTHS | 1 MONTH | 1-2 WEEKS | FINAL |
|---|---|---|---|---|---|
| Review Finances<br>Get pre-approval | Select Buyer's Agent<br>Begin Home Search | Resubmit pre approval<br>Make Offer and Negotiate | Get Home Inspection<br>Order Appraisal | Loan Approval<br>Final walk-through | Pay Closing Cost<br>Sign paperwork<br>Get your keys! |

## Establishing your Home.

Buying a home is an exciting experience, but it can be one of the most challenging if you don't understand the process. Many families feel overwhelmed because of the amount of paperwork they must complete. Knowing what to expect, especially if you're a first-time homebuyer, will help you make solid decisions about your home purchase.

This guide was written to help you navigate the entire process — from the people involved to the costs and forms you'll be asked to complete— and how you can take steps to make sure you keep your home long term. Understanding the primary purpose and function of the home buying process, as well as the role of the many professionals involved, will make your home buying experience much less intimidating.

## Getting Started

As you begin the journey toward homeownership, there are many resources available to you, including real estate professionals, community organizations, your local government housing agencies, and loan officers who understand and are willing to work with prospective homebuyers like you. You will face many decisions throughout the process. We strongly encourage you to seek out these resources' professional services to gather the facts so you can make the best decisions.

While it is tempting to look for your perfect home right away, there are some steps to follow before you start shopping for a home. Begin by determining how much you can afford, based on your spending plan and comfort level.

As you gather your information from experts, it's more important than ever to ensure that you receive reliable information that will enable you to make the right choices throughout the home purchase process.

Follow these helpful tips so that you and your family can make an intelligent choice for yourself and your family.

Thank you,

Brian C. Coester
Founder and CEO
Real Estate Connection

www.RECHomeCenter.com

# 1. ENTERING THE HOME BUYING PROCESS

Once you enter the process, you'll be faced with a
variety of forms and an assortment of paperwork.
The materials in this Guide focus on what you need to know about both the process and the forms. They will give you an overview of the path to purchasing a home, and they'll describe and explain the most common mortgage forms you're likely to be asked to complete. While the sections that follow will answer many of your questions, the professionals working with you should advise you and address your concerns along the way.

Each section in this Guide explains the major steps in the homebuying process. The information will take you from application to closing, and it will even address the first months of homeownership to show you the kinds of things you need to do to ensure that you keep your home long term.

You'll also look at the role of the different people involved in the home buying process: **the loan officer**, the **real estate professional**, the clo**sing agent,** and the **home inspector**, among others, to better understand why they're involved and what they do. The information in this Guide, coupled with the support from a trusted housing professional, will help ensure that you are better equipped for homeownership in the future.

- **Create your home wish list.** Determine what's most important for you to have right now, i.e., location, schools, bedroom, bathrooms, a yard, etc.
- **Shop around.** It's supposed to be a fun experience. Take your time to view different home styles, neighborhoods, and areas to see what you really like.
- **See what you can afford.** Talk to several lenders to find the best mortgage loan you qualify for. Also, request a copy of your credit report to see your credit and if there errors that need to be fixed.
- **Find out about prepayment penalties.** Know if the mortgage loan offered to you includes a fee if you pay off your loan early. If it is a requirement of the mortgage loan, you may want to ask about other products that do not contain a penalty.
- **Make sure the documents** are correct. Beware of anyone offering to falsify your income information to qualify you for a mortgage loan. Never falsify information or sign documents that you know to be false.
- **Make sure documents are complete**. Do not sign documents that have incorrect dates or blank fields. Be wary of promises that a professional will "fix it later" or "fill it in later" after you've signed.
- **Ask about additional fees.** Make sure you understand all of the fees that are part of your mortgage process. Question any items you didn't request or know about before you are asked to sign the mortgage loan documents.
- **Understand the total package.** Ask for written estimates that include all points and fees. Compare the annual percentage rate (APR), which combines a loan's interest rate with certain other fees charged by the lender at closing and over the life of the loan.
- **Work with legitimate credit counselors.** Beware of scam credit counseling and credit consolidation agencies. Get all the facts before deciding to combine credit cards or other debts into a mortgage loan.

# 2. UNDERSTANDING THE PEOPLE AND THEIR SERVICES

## Who's Who and What's What

The process of obtaining a mortgage can seem quite complicated because of the number of people involved. Although it can appear overwhelming at times, it is important to recognize that each person you work with provides a specific service to help you become a homeowner.

This section will acquaint you with the many people you'll work with as you buy your home. Some of the first people you'll meet include your loan officer and the real estate professional. Your loan officer will help you determine how much you can afford to spend on a mortgage loan so that you choose the mortgage option that best suits your financial situation, and a real estate professional will help you find the right home for you and your family. As you move further along in the mortgage process, you'll meet additional professionals, including a real estate appraiser, home inspector, and closing representative. Here is a summary of the key members of your homebuying team and what they do for you:

**Loan Officer** — Loan officers are mortgage specialists; they will use your credit, financial, and employment information to see if you qualify for a mortgage and then develop mortgage financing options that match your financial capacity. There are a variety of different mortgage options available. Fixed-rate mortgages provide a stable option since your interest rate remains the same for the length of your loan. The most common fixed-rate mortgage is a 30-year fixed-rate, although 15- and 20-year fixed-rate mortgages also provide certain advantages.

Your loan officer will also help you complete your mortgage loan application and track what's happening during the loan approval process. Please be sure to read Section 3, What You Should Know About Your Mortgage Loan Application.

**Real Estate Professional —** Real estate professionals (REPs) can help you find the kind of home you seek, examine comparable homes, and compare different neighborhoods. They often provide specific community information on shopping, schools, property tax rates, and more. Most important, REPs can look for homes that meet your needs and financial circumstances, helping you narrow your choices. And when you're ready to make an offer on a home, the real estate professional will usually handle the negotiations with the seller, including presenting your offer (what you're willing and able to pay for the property).

To find a real estate agent professional, you should ask your family and friends for referrals. You can also find an agent, a REP, who makes you feel comfortable and can provide the knowledge and services you need. The seller almost always pays the real estate agent professional upon the sale of the home.

**Loan Processor**— The loan processor's job is to prepare your mortgage loan information and application for presentation to the underwriter. The loan processor will ask you for many documents, including documents about your income, employment, monthly bills, and how much you have in the bank. In addition, the loan processor must make sure that all proper documentation is included, that all numbers are calculated correctly and double-checked and that everything is stacked in the proper order. A well-processed loan file can decrease the amount of time it takes to decide about your mortgage loan application.

**Mortgage Underwriter** — The mortgage underwriter is the professional authorized to assess if you are eligible for the mortgage loan you are applying for. The mortgage underwriter will approve or reject your mortgage loan application based on your credit history, employment history, assets, debts, and other factors.

**Real Estate Appraiser** — The real estate appraiser's job is to look at the property you are purchasing and determine how much it's worth (or its fair market value). Real estate appraisers determine a home's value in several ways, including comparing the value of similar homes recently sold nearby.

A real estate appraiser is specially qualified through education, training, and experience to estimate the property's value.

**Home Inspector** — Hiring a professional home inspector can be one of the most important things you can do to make sure your home is in good condition. An authorized inspector can uncover defects with the house that could cost you much money down the road. For example, if the home inspector finds a serious problem, like a roof that needs to be replaced, you'll know upfront and negotiate with the seller for the roof repair or replacement cost. If you don't find out that sort of thing until you own the house, the problems (and costs) are yours alone. Your real estate professional can be a good reference for a home inspector.

**Closing Representative** — Closing, also called "settlement," is the final step in buying your home. A representative of the closing company oversees and coordinates the closing, records the closing documents, and disperses money to the appropriate individuals and organizations. Closing meetings are a standard part of the homebuying process.

At closing, you'll sign many documents like the mortgage note and mortgage or deed of trust. Proof of insurance and inspections, as well as any money due, are required before you get the keys to your new home. Once the closing meeting is complete, you can move into your new home.

## Other Housing Professionals

Along with the housing professionals previously listed, other important people and organizations you'll work with as part of the homeownership process. These include:

**Community-Based Organizations and Local Housing Counseling Agencies**
— These are important organizations to consider contacting when you begin the homebuying process. Professionals in these organizations will help you assess your indi vidual financial situation and help you improve your credit to ensure that you are well prepared for homeownership. They may also be able to identify the local government-sponsored down payment and closing cost assistance funding that you may be eli eligible to receive.

**Mortgage Lender and Servicer**
— The mortgage lender is the financial institution that provides funds for your mortgage. A mortgage servicer is a financial institution or entity that is responsible for collecting your ongoing mortgage payments. If you have difficulty paying your mortgage on time after you become a homeowner, be sure to contact your mortgage servicer, who can provide you with a variety of options to help you stay in or sell your home. Your mortgage servicer may be the same as your lender, or maybe a different company depending on who your lender is or how they manage your mortgage going forward. It is not uncommon for your lender to transfer the servicing of your mortgage to a different company after you close on your home.

All of these people play different but complementary roles. Knowing the roles of each professional will make the mortgage process flow as smoothly
as possible.

# 3. WHAT YOU SHOULD KNOW ABOUT YOUR MORTGAGE LOAN APPLICATION

Now that you've read about the key professionals in the home buying process, it's time to start taking a closer look at the forms and assorted paperwork necessary to purchase a home. Several important steps are involved in making the dream of homeownership a reality. One of them is completing your mortgage loan application (the official title for this form is the Uniform Residential Loan Application).

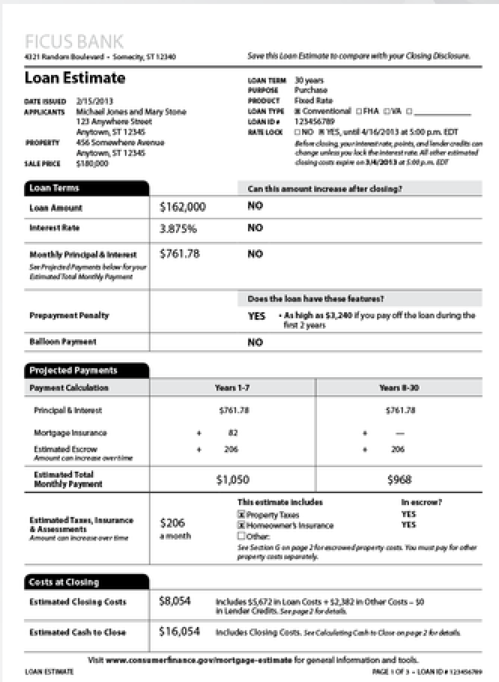
This mortgage loan application includes several sections that capture information about you, your finances, and details of your potential mortgage. It's lengthy and, at first, glance, seems complicated, so in this section, you'll learn about the reasons for each part of the form and why you're being asked to provide the requested information. Your loan officer will help you fill out this form.

Be sure to work with your loan officer to complete the application accurately and completely and take your time when answering the questions on the application. If you put false or inaccurate information on your mortgage application, it can seriously harm your chances of being approved and is illegal. All of the personal information on your application is confidential and protected by federal law.

## Pre-Approval and It's On to the Next Step

Once the application is complete, your loan officer will review it with you and ask you and any co-borrowers to sign it. Your loan officer will then send it through their organization to obtain approvals. If it's approved, you will receive a pre-approval letter, which is the lender's conditional commitment to lend you a specific amount of money for the purchase of your home.

With that pre-approval, you will know just how much house you can afford to buy. While this is helpful information, you need to decide for yourself if you can live comfortably with the amount of your suggested mortgage and the associated monthly mortgage payment.



FICUS BANK
4321 Random Boulevard • Somecity, ST 12340

*Save this Loan Estimate to compare with your Closing Disclosure.*

**Loan Estimate**

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone
123 Anywhere Street
Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
Anytown, ST 12345
SALE PRICE $180,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐ ________
LOAN ID # 123456789
RATE LOCK ☐ NO ☒ YES, until 4/16/2013 at 5:00 p.m. EDT
*Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT*

| Loan Terms | | Can this amount increase after closing? |
|---|---|---|
| Loan Amount | $162,000 | NO |
| Interest Rate | 3.875% | NO |
| Monthly Principal & Interest *See Projected Payments below for your Estimated Total Monthly Payment* | $761.78 | NO |
| | | **Does the loan have these features?** |
| Prepayment Penalty | | YES • As high as $3,240 if you pay off the loan during the first 2 years |
| Balloon Payment | | NO |

**Projected Payments**

| Payment Calculation | Years 1-7 | Years 8-30 |
|---|---|---|
| Principal & Interest | $761.78 | $761.78 |
| Mortgage Insurance | + 82 | + — |
| Estimated Escrow *Amount can increase over time* | + 206 | + 206 |
| Estimated Total Monthly Payment | $1,050 | $968 |

| | | |
|---|---|---|
| Estimated Taxes, Insurance & Assessments *Amount can increase over time* | $206 a month | This estimate includes: ☒ Property Taxes (In escrow? YES) ☒ Homeowner's Insurance (YES) ☐ Other: *See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.* |

**Costs at Closing**

| | | |
|---|---|---|
| Estimated Closing Costs | $8,054 | Includes $5,672 in Loan Costs + $2,382 in Other Costs – $0 in Lender Credits. *See page 2 for details.* |
| Estimated Cash to Close | $16,054 | Includes Closing Costs. *See Calculating Cash to Close on page 2 for details.* |

Visit **www.consumerfinance.gov/mortgage-estimate** for general information and tools.

LOAN ESTIMATE PAGE 1 OF 3 • LOAN ID # 123456789

# 4. UNDERSTANDING YOUR COSTS THROUGH ESTIMATES, DISCLOSURES AND MORE

Once you have completed the mortgage loan application process, your loan officer will provide you with various documents outlining the costs associated with your loan. The most important is the Loan Estimate and the Closing Disclosure. These forms are required by law and are there for your protection.

## The Loan Estimate

Within three business days of applying, your loan officer must provide you with a Loan Estimate. The Loan Estimate provides you with an estimate of your mortgage loan terms and settlement charges (also called closing charges or costs to complete your mortgage transaction) if you are approved for a mortgage loan. With this information, you can evaluate your mortgage loan offer and even explore a few other possibilities before accepting it.

The Loan Estimate is a three-page form with summary information of your loan terms, monthly payment, and money needed at closing on the first page, details of your closing costs on the second page, and additional information about your loan on the third page.

You can use your Loan Estimate to compare rates and settlement charges from other lenders. As the legal mortgage terminology used in the Loan Estimate may seem confusing, the following definitions should help you understand some of the most important information on this form.

**Loan Terms**
— This section defines the basic terms of your mortgage loan, including the initial loan amount, interest rate, and initial monthly payment. This section also includes important information indicating if your interest rate can rise and if your loan has a prepayment penalty.

**Escrow Account Information**
— Most lenders require you to pay in advance for some items that will be due after closing. These prepaid items generally include homeowner's insurance premiums and property taxes. The first page of the Loan Estimate indicates whether or not an escrow account is required and estimates the amount of your monthly escrow payment.

**Closing Cost Details** —
Your closing costs include Loan Costs and Other Costs. Loan costs are divided into three categories:

– Origination charges are fees charged by your lender for preparing and submitting your completed loan application and underwriting your loan. The Origination Charges can include an application fee, an underwriting fee, and an origination charge or points. One point equals one percent (1%) of your mortgage amount.

– Services You Cannot Shop For lists the fees for those settlement services for which the lender will select the person or entity that will provide those services. These services typically include appraisals and credit reports, for example.

– Services You Can Shop For lists the fees for those settlement services you may shop for and choose the service provider. These services may include the
a company that issues title insurance conducts a survey or performs a pest inspection.

Other Costs include: (1) Taxes and government fees such as recording fees and taxes and transfer taxes; (2) Prepaid such as homeowner's

Insurance premiums for the first year of your loan term, prepaid interest, and property taxes; and (3) Initial escrow payments at closing, which generally include two (2) months of homeowner's insurance premiums and property taxes.

Some common fees you may be charged include the following:

- **Appraisal Fee** — The fee paid to the professional appraiser who will assess the value of the home you want to buy. Since the home is the security or a guarantee on the amount you are financing with your mortgage loan; your lender needs to know that the property's value covers the loan amount. Most lenders will not provide you with a mortgage loan amount greater than what the appraiser determines is the property's fair market value.

- **Credit Report Fee**

—the cost of getting copies of your credit report to assess your mortgage loan application. Your credit score, included in your credit report, is one of the most important factors in determining the interest rate that will be offered to you.

## WHAT DOES YOUR CREDIT REPORT INCLUDE?

Your credit report provides information on money you've borrowed from credit institutions, in addition to your payment history, and includes:

■ A list of debts and a history of how you've paid them. This can include credit cards, auto loans, student loans, department store credit cards, etc.

■ Any bills referred to a collection agency. This can include phone and medical bills.

■ Public record information. This can include tax liens and bankruptcies.

■ Inquiries made about your creditworthiness. An inquiry is made when you apply for credit. Your credit report can also show if you were given credit based upon the inquiry.

- **Title services fee and title insurance**

— the fee paid to a title company to search county records to make sure that the title to the property you wish to buy is clear and free of any complications like pending debts or liens on the property.

- **Government recording charges** — the fee required to register the property under your name and record the mortgage or deed of trust.

- **Homeowners insurance —** This charge is for the insurance you must buy to protect your property from a loss, such as fire, floods, and storm damage. In many cases, homeowners choose to let the lender pay the insurance from an escrow account the lender sets up for you that you fund every month.

- **Initial deposit for your escrow account** —This represents the money you must pay in advance to establish your escrow account so that the lender can use this account to pay for homeowners insurance, property taxes, and other charges, if applicable.

Read the Loan Estimate very carefully and go over the list of fees with your loan officer to make sure that you have a clear understanding of what you are paying and why.

Please keep in mind that the Loan Estimate is only an estimate, and the actual charges you must pay at closing may differ. At your closing, you will receive a Closing Disclosure form that lists your actual loan costs. Compare the charges on the Closing Disclosure with the charges on the Loan Estimate to ensure that they have not dramatically changed. If they have changed, be sure to get a clear explanation of why. There are limits on the amount by which certain charges listed on the Loan Estimate can increase.

The Loan Estimate also includes certain disclosures that will enable you to see the total cost of your mortgage under the terms of your particular mortgage loan. This disclosure is required by law to inform you of the complete cost of your credit and allows you the opportunity to ask questions and understand how much you will pay for the mortgage loan you will get.

These disclosures reflect the most significant characteristics of your mortgage loan: *(1) the annual percentage rate (APR), (2) the payment amount, and (3) the total interest percentage (TIP).*

The APR is not the interest rate for which you applied. This percentage rate considers the various loan charges, including loan discounts, origination fees, prepaid interest, and other credit costs. The APR is important because it gives the true cost of borrowing since all of the finance charges associated with the mortgage loan are considered.

The proposed payment amount shows the dollar amount of your payments and their frequency.

The TIP is the total amount of interest you will pay over the loan term as a percentage of your loan amount.

## The Commitment Letter

After your lender has approved your mortgage loan application, you should receive a commitment letter that specifies the mortgage loan amount, the number of years to repay the mortgage loan (the term), the interest rate, the APR, and the monthly charges. It would be best if you usually accepted the commitment by returning a signed copy to the lender within five to 10 days, and you might have to pay part or all of the origination fees at this time. Once the commitment letter has been received, you have assured the financing needed to complete the purchase of your home and can now focus on completing the details required for closing.

## The Appraisal Disclosure

This document will inform you that you have the right to get a copy of the appraisal report that was obtained in conjunction with your credit application.

## Other Disclosures

Many other disclosures will be given to you, including disclosing your credit report and your right to get a copy. You will also be required to sign a disclosure stating that you intend to actually occupy the property as your primary residence (live in the property the majority of the time) instead of using the property as a second home or as an investment.

## The Final Document Before Closing: The Closing Disclosure

Your loan officer should provide you with a copy of the Closing Disclosure at least 3 business days before you sign the mortgage loan documents at your closing. This document discloses the actual dollar amounts you will pay for the various fees and services associated with your mortgage loan closing. Your closing costs can typically range from 3 percent to 7 percent of the mortgage loan amount, so it's important that you are aware of these costs and ask questions about them.

**The Closing Disclosure** contains the final terms of your loan, as well as the final loan charges that you will pay at closing. In addition to the disclosures contained in the Loan Estimate, the Closing Disclosure provides information regarding certain features of your loan, the amount financed, the finance charge and the total of payments.

**Closing Disclosure**

*This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.*

Closing Information
**Date Issued** 4/15/2013
**Closing Date** 4/15/2013
**Disbursement Date** 4/15/2013
**Settlement Agent** Epsilon Title Co.
**File #** 12-3456
**Property** 456 Somewhere Ave Anytown, ST 12345
**Sale Price** $180,000

Transaction Information
**Borrower** Michael Jones and Mary Stone 123 Anywhere Street Anytown, ST 12345
**Seller** Steve Cole and Amy Doe 321 Somewhere Drive Anytown, ST 12345
**Lender** Ficus Bank

Loan Information
**Loan Term** 30 years
**Purpose** Purchase
**Product** Fixed Rate
**Loan Type** ☒ Conventional ☐ FHA ☐ VA ☐
**Loan ID #** 123456789
**MIC #** 000654321

| Loan Terms | | Can this amount increase after closing? |
|---|---|---|
| Loan Amount | $162,000 | NO |
| Interest Rate | 3.875% | NO |
| Monthly Principal & Interest *See Projected Payments below for your Estimated Total Monthly Payment* | $761.78 | NO |
| | | **Does the loan have these features?** |
| Prepayment Penalty | | YES • **As high as $3,240** if you pay off the loan during the first 2 years |
| Balloon Payment | | NO |

| Projected Payments | | |
|---|---|---|
| **Payment Calculation** | **Years 1-7** | **Years 8-30** |
| Principal & Interest | $761.78 | $761.78 |
| Mortgage Insurance | + 82.35 | + — |
| Estimated Escrow *Amount can increase over time* | + 206.13 | + 206.13 |
| **Estimated Total Monthly Payment** | $1,050.26 | $967.91 |
| **Estimated Taxes, Insurance & Assessments** *Amount can increase over time* *See page 4 for details* | $356.13 a month | **This estimate includes** ☒ Property Taxes — **In escrow?** YES; ☒ Homeowner's Insurance — YES; ☒ Other: Homeowner's Association Dues — NO. *See Escrow Account on page 4 for details. You must pay for other property costs separately.* |

| Costs at Closing | | |
|---|---|---|
| Closing Costs | $9,712.10 | Includes $4,694.05 in Loan Costs + $5,018.05 in Other Costs – $0 in Lender Credits. *See page 2 for details.* |
| Cash to Close | $14,147.26 | Includes Closing Costs. *See Calculating Cash to Close on page 3 for details.* |

CLOSING DISCLOSURE PAGE 1 OF 5 • LOAN ID # 123456789

The amount financed is the loan amount available after paying your upfront finance charge. The finance charge is the dollar amount the loan will cost you, and the total of payments is the total amount you will have paid after you make all payments of principal, interest, mortgage insurance, and loan costs, as scheduled.

The Closing Disclosure also lists the date of the closing. In many places, the closing takes place at a title company or an escrow office. The escrow officer is an impartial third party in the transaction, who will be able to answer general questions about the terms of your mort gage loan but won't be able to give you legal advice.

# 5.WHAT YOU SHOULD KNOW ABOUT YOUR CLOSING

## The Final Step to Homeownership

You and your family are finally ready to move to your new home. Your mortgage loan was approved, your house passed inspection, your belongings are packed, and everyone is looking forward to moving day. All that's left is to attend your closing.

What is a closing? Closing is a meeting that involves all of the parties signing the final documents and legally transferring the property to you. There are costs and fees in this final step of which you need to be aware. This section will walk you through the entire process.

When you are finished signing the closing documents, you will be given the keys to your new home. The mortgage process is now complete, and you are officially a homeowner.

## Who Will Be There?

Usually, the closing takes place at a title company or an escrow office. The following individuals should be there or be represented:

You and any co-borrower (such as your spouse), if they're involved with the transaction.

- **Escrow officer**
- **Closing agent**
- **The seller's real estate professional**
- **Your real estate professional**

The thing you'll probably remember most years later is how many times you had to sign your name. There are lots of documents that need your signature. Here's an overview of what will happen:

You will sign a promissory note indicating that you have accepted the mortgage loan from your lender and agree to repay the amount borrowed, plus interest. You also will sign a security instrument that pledges your home as collateral for the loan. In some states, this document is a mortgage, and in other states, it is a deed of trust.

At closing, your lender will transfer the money to the seller on your behalf. The seller will then sign a document called the deed, transferring ownership of the property to you.

The title company or settlement agent will prepare all
the documents and make sure that they are properly recorded.

Additionally, there will be several affidavits and declarations for you to sign. These legally binding documents spell out the financial obligation you are taking on and your rights as a homeowner.

Make sure you understand what you're signing. It is important to read the documents carefully. Don't hesitate to ask questions. Sometimes real estate professionals will go over the documents in detail.

Before the actual closing, so you are comfortable with the process. If that seems like a good idea to you, by all means, ask your real estate professional to spend time with you explaining the paperwork.

## The Documents in More Detail

Here's a little more detail about some of the paperwork you'll be asked to sign at your closing. Remember, every person who buys a home has to sign this paperwork, no matter the country of origin, income level or native language.

**The Mortgage Note**
-- is a legal document that provides evidence of your indebtedness and your formal promise to repay the mortgage loan, according to the terms you've agreed to. These terms include the amount you owe, the interest rate of the mortgage loan, the dates when the payments are to be made, the length of time for repayment and the place where the payments are to be sent. The note also explains the consequences of failing to make your monthly mortgage payments.

**The Mortgage or Deed of Trust**
-- is the security instrument that you give to the lender that protects the lender's interest in your property. When you sign the mortgage or the deed of trust (depending on the state where you live), you are giving the lender the right to take the property by foreclosure if you fail to pay your mortgage according to the terms you've agreed to. Financing a house is very similar to financing an automobile; in both cases, the property is the security for the loan.

The mortgage or deed of trust states most of the information contained in the note. It also establishes your responsibility to keep the house in good repair,
insure it, pay your real property taxes and make your
payments on time.

The Deed is a document that transfers ownership of the property to you. It contains the names of the previous and new owners and a legal description of the property and is signed by the person transferring the property. The deed gives you title to the property, but the title is conveyed to a neutral third party (called a trustee) until you pay the mortgage loan in full.

The closing agent will be responsible for recording this document so that it can be filed as part of your county's public records. You will receive a copy at closing and another copy after it has been recorded.

Affidavits and Declarations are statements declaring something to be true, like the fact that the property will be your principal place of residence or that all the repairs needed on the property were completed prior to closing. In most cases you'll have to sign one or more affidavits at your closing.

## A Summary of Useful Tips

The closing process can be stressful because of all the paperwork you will need to sign. Just remember these few tips:

Avoid feeling rushed by reading all the documents that will be sent to you prior to this meeting.

Most people ask a lot of questions about the legal terminology in closing documents. Don't be afraid to ask as many questions as you need to ensure that you clearly understand the process and the paperwork.

The documents in the mortgage process are the same for everybody, regardless of ethnic origin, language, gender or income. Federal law requires that you sign English language versions of all forms as your final, legally binding contract.

The day you close on your new home will be one of the most rewarding experiences of your life. While homeownership does come with responsibility, you'll take pride in the fact that you have a new home for you and your family to enjoy now and in the future.

# 6. OWNING AND KEEPING YOUR HOME

## Keeping Your Home and Your Finances in Order

Buying a home is a dream come true for many — but signing your mortgage documents is only the beginning of your homeownership responsibilities. Owning a home is an ongoing commitment— new issues and responsibilities can come up at any time. Just as you organized your finances in order to purchase your home, it's also wise to think through what it will take to stay comfortably in your home. That's what this section is all about.

We all know that life is unpredictable. Any number of unexpected things — a sudden illness in your family, the loss of a job, or a family emergency — could limit your ability to fulfill your financial obligations, including paying your mortgage on time. Prepare now so that if you are challenged in the future, you'll be better equipped to handle the situation.

Your agreement to pay your mortgage loan is very specific. It establishes the exact date when your mortgage loan is due each month, the amount of the payment and where it should be sent. Making late payments will result in late fees and will also negatively affect your credit score and your ability to obtain credit in the future.

Knowing these facts will give you the confidence to prepare for the unexpected by creating a plan that includes budgeting for emergencies.

## Protecting Yourself by Planning Ahead

Always have a backup plan ready in case you suddenly find yourself facing financial difficulty. One rule of thumb: work toward setting aside between three and six months of living expenses to protect yourself from unexpected financial problems. If you don't already have that, start saving today.

Follow a spending plan and take into account the new expenses you have as a homeowner, like taxes, insurance, furnishings and general maintenance and repair costs. Think about areas where you can reduce your monthly spending on nonessential services. For instance, temporarily canceling your gym membership or delaying electronics purchases may significantly reduce your monthly expenses.

### TAKE INTO ACCOUNT THE NEW EXPENSES YOU HAVE AS A HOMEOWNER

Remember that the mortgage is not the only expense of homeownership. Other expenses include:

- Homeowners insurance, interest and taxes (which may be factored into your monthly mortgage payment)
- Maintenance costs
- Utilities
- Water and garbage services
- Unexpected repairs

## Maintaining Your Home

Every step you take now to care for your home will benefit you and your family in the future. It is important that you maintain the condition of your home for the safety and comfort of your family and to protect the value of your property.

Once you move into your home, it is essential that you set aside part of your time and spending plan to maintain the property.

Plan — if you know that your water heater is old and probably only has a year before it needs to be replaced, start budgeting for its replacement now. Keep track of the age of appliances, the roof, decks, and other features. Knowing when things are likely to need maintenance can avoid unpleasant surprises that can impact your finances.

## If Your Mortgage Loan Is "Sold" or the Servicing of Your Mortgage Loan is Transferred to Another Servicer

Don't be alarmed if an unfamiliar company notifies you that it has "bought" your mortgage loan or is now servicing your mortgage loan. Lenders regularly sell mortgage loans or transfer the servicing of mortgage loans to other companies. This transaction doesn't mean the terms or obligations of your mortgage loan have changed, only that you'll be sending your mortgage loan payment to another company, at another address.

If that happens, you'll be sent all the information you need from your current servicer and your new servicer so there is a smooth transition. It's wise to read carefully all correspondence related to your mortgage loan and keep company names, mailing addresses and telephone numbers in a file.

## Working with Your Lender to Prevent Foreclosure

If something happens in your life that hurts your ability to pay your mortgage, contact your mortgage servicer (the company where you send your mortgage payments) immediately.

If you won't be able to make a payment please call your lender. It's not a conversation anyone looks forward to because it can be embarrassing and uncomfortable. But remember, you're dealing with professionals who understand just what your options are and are trained to help you make the right choices to keep you in your home if at all possible. In some cases, people have lost their homes because they did not return their mortgage company's calls or written invitations to discuss payment options.

Don't wait until you miss a mortgage payment to contact your mortgage servicer. If you don't pay your monthly mortgage payments over a period of time, the mortgage company can foreclose. This means you will lose the title to your property and maybe evicted from your home. The key here is to communicate, communicate, communicate.

## Community Resources

Nonprofit housing and credit counselors in your community can also assist by helping you analyze your financial situation and put together a spending plan to help you pay your mortgage and other monthly expenses. These counselors can help you find and take advantage of local services or programs that provide financial, legal, medical, or other support. They also play an important role in counseling borrowers who have fallen behind in their mortgage payments and may be facing foreclosure. HUD-approved housing counseling agencies are available to provide you with the information and assistance you need to avoid foreclosure. Find a list of HUD-approved foreclosure avoidance counseling agencies by visiting: ***http://www.hud.gov/offices/hsg/sfh/hcc/fc/index.cfm***.

## Protecting Your Good Credit and Your Home

Your house has real monetary value and the potential to be a source for building wealth for you and your family. That's one reason why you could be the target of scam artists and unscrupulous people who want to give you loans against the equity you have in your house.

Your equity is the amount your house is worth on the market, minus what you owe to your mortgage lender.

Be careful when you get these offers in the mail, by telephone, or in person. If an offer sounds too good to be true, it usually is. Remember, it took you time and
a disciplined attitude to build a good credit history, and it's because of that good credit that you were able to obtain the approval on your mortgage loan.

When you protect your credit, you're protecting your ability to get financing with favorable terms in the future. If you are thinking about refinancing down the road, helping your kids get a college loan, opening a new line of credit, or making improvements to your home, maintaining and protecting your good credit will help you get what you need.

## Prevention Checklist

It is important that you take a conservative approach to long-term homeownership—plan for things you need and want and prioritize them. Be careful with your credit and cash. You'll find that being prudent in your planning and spending, in the beginning, will better position you for a successful homeownership experience.

Remember the following:

- Keep all your documents in a file if you need to take legal action to protect your property and other assets.
- Create a spending plan that everyone in your family will follow; be sure to include new house expenses.
- Start a savings account for unexpected emergencies like extensive home repairs, illness, and loss of employment.
- When using credit, always plan for your purchases. Never make a major purchase on impulse. It would be best if you had a plan for paying off that purchase. Ask yourself: "Do I really need to buy this now?"
- Protect your personal information and never share your Social Security number and account information with unknown companies and individuals.
- Never sign any document you don't understand, and don't allow anyone to pressure you into signing any contract you don't want to sign.
- Take advantage of free workshops on money and credit management from nonprofit groups in your local community.

## Our WISH for YOU

I wish your home is filled with many joyful memories and that God blesses you and your family.

Your life as a homeowner will present you with some challenges, but the rewards are many, help is only a telephone call away. There are companies and organizations committed to supporting the success of new homeowners like you because they believe homeownership is good for families and good for neighborhoods.

You should be proud. You've achieved the dream of homeownership, congratulations.

Thank you for the opportunity for REC to serve you.

Sincerely yours,

Brian C. Coester
Founder and CEO.

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