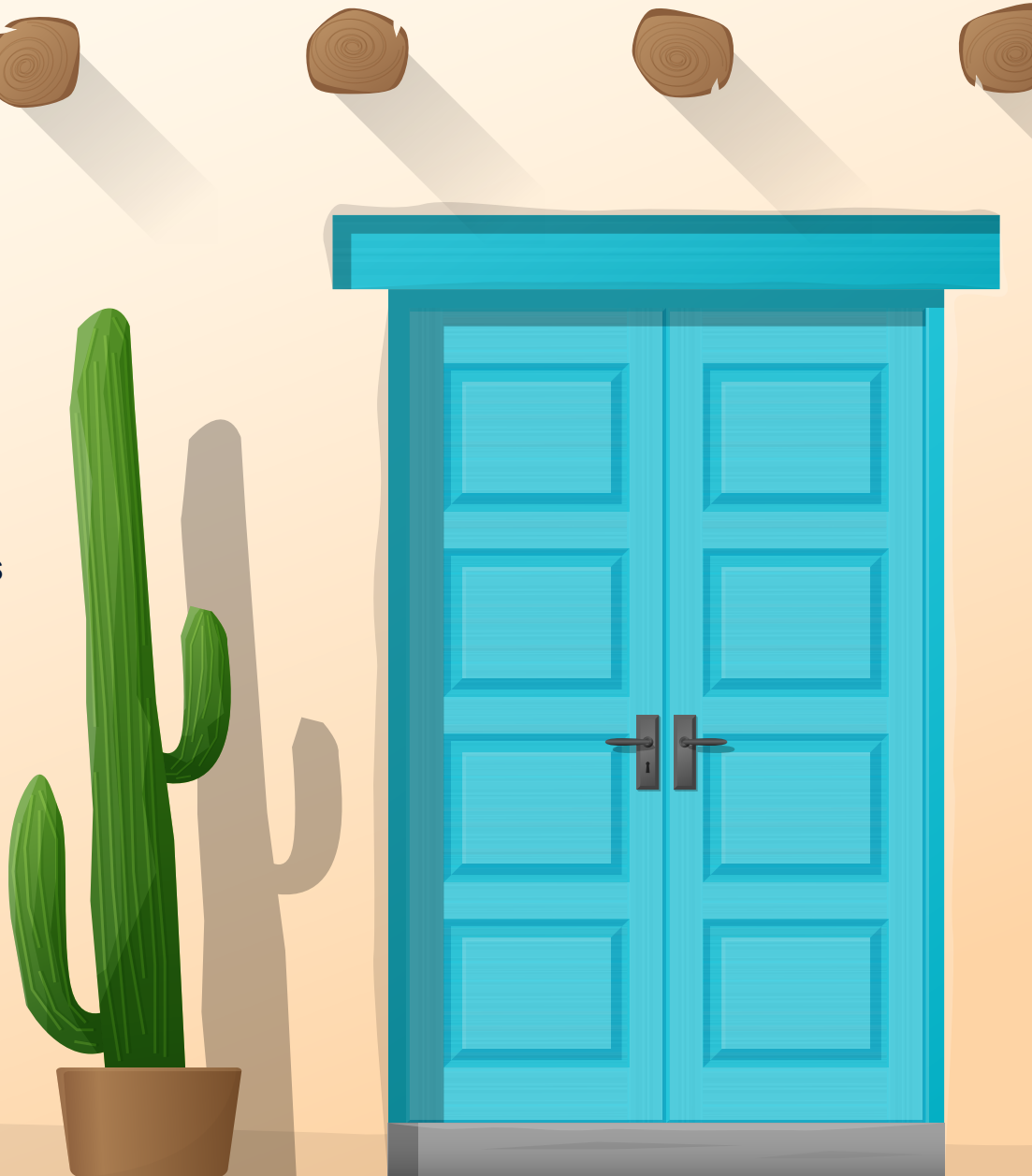
The Road Home

A Guide to Understanding Mortgages



laurel road

The Basic Components

What is a mortgage?

A mortgage is simply a loan provided by a lender or bank to help finance a home purchase. By understanding the basics, you'll be able to make informed decisions and build a stronger foundation for the future.

Mortgage payments, which are typically paid monthly, include:

Principal

Repayment of the amount borrowed.

Interest

What you additionally pay to a lender to borrow funds.

Property taxes

Assessed based on the value of a home.

Insurance

Homeowners insurance is required by lenders and protects both your interest and theirs. Some require private mortgage insurance (PMI), especially if a down payment is less than 20%. This can be paid by you or the lender. If you are paying the PMI, it will automatically cancel when the loan-to-value reaches 78%. Flood insurance and homeowner association fees may also apply.

Common Mortgage Options

Lenders offer a variety of mortgage types.

Most often for 30-year terms but there are other options. The type you choose should depend on a number of factors, like your down payment, monthly budget, and how long you plan to stay.

Fixed-rate mortgage

These are based on set interest rates typically with 10, 15, 20, and 30-year terms. Monthly principal and interest payments remain steady throughout the life of the loan, enabling you to more predictably plan monthly budgets and future finances.

This is especially appealing if you plan on staying in your home a long time (likely a decade or more).

Adjustable-rate mortgage (ARM)

Rates are initially fixed, typically for five, seven, or 10 years, but later may fluctuate annually based on market condition. An adjustable rate can be unpredictable and increase monthly payments.

On the other hand, ARMs usually provide lower initial interest rates, which can be helpful if you only plan on being in your house for a short time. Also, ARMs cap how much a rate can change, upwards or downwards, annually or over the life of the loan.

Jumbo mortgage

These are often used to purchase higher-priced homes with a loan amount exceeding the current conventional limit of $453,100*. Certain counties within each state may increase borrowing limits through high balance mortgage programs.

Jumbo mortgages usually have more demanding requirements, such as a credit score of at least 680, a debt-to-income ratio of 43% or less, and six to 12 months of reserves in a bank account.

*(effective January 1, 2018)

Interest can be reduced by paying points up-front.

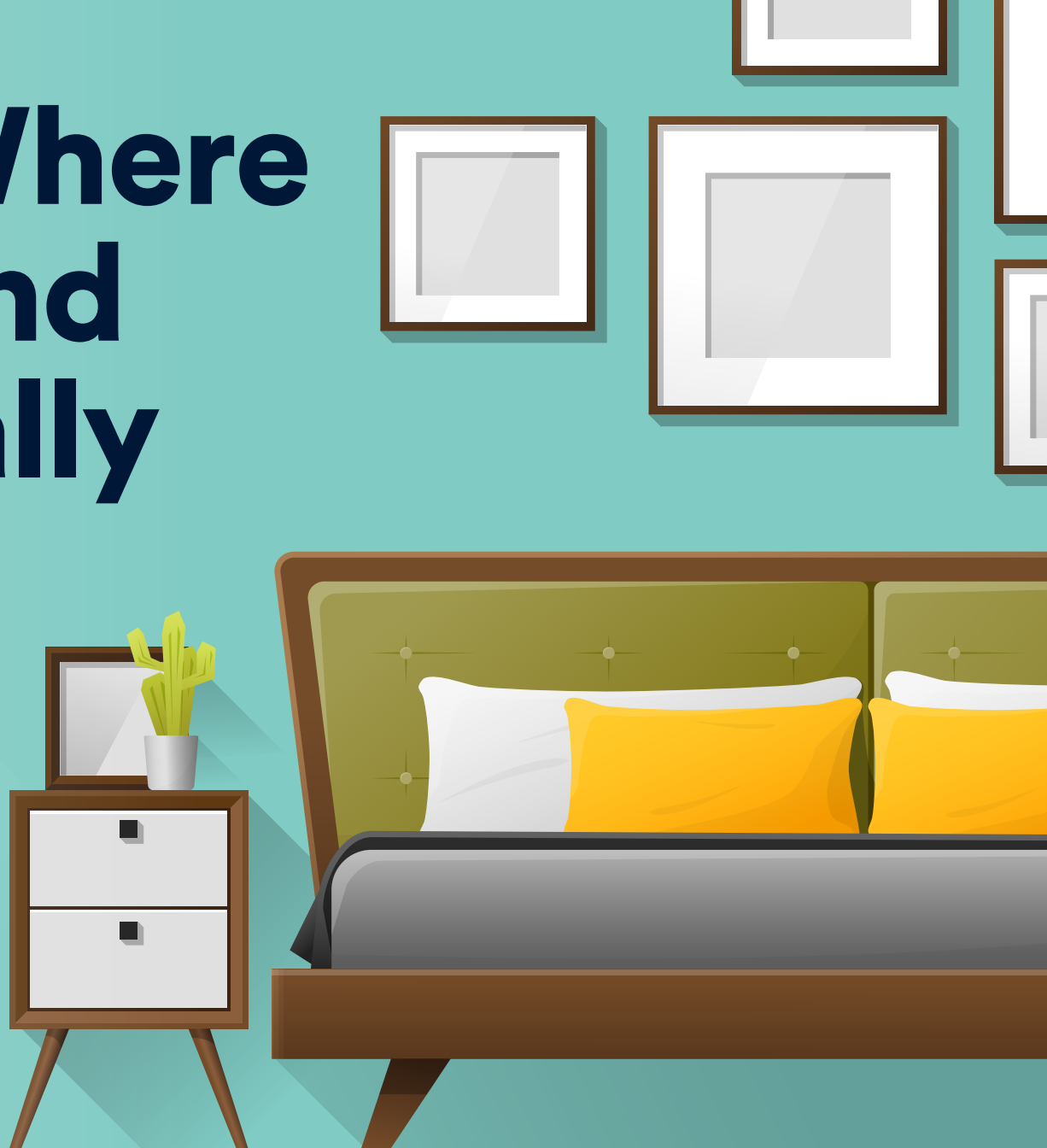
By paying a one-time discount fee at the start, you can permanently buy down the interest rate for the life of the loan, reducing monthly mortgage payments.

Paying one point now – 1% of the loan amount (or $1,000 for every $100,000) – can bring an interest rate down by about 0.125 to 0.25%. Also, speak with your accountant, sometimes doing this offers tax advantages.

As a national lender, Laurel Road helps determined buyers work smarter by providing personalized mortgage options at real, competitive rates. Our secure technology builds mortgages entirely online, simplifying the process with clear options, transparent fees, and human support when you need it.

To learn more and apply for your mortgage online visit laurelroad.com/mortgage.

Know Where You Stand Financially



Assess your financial strengths and weaknesses up front.

Here are some key factors you should to know.

Debt-to-income ratio (DTI)

Your total recurring monthly debt – including auto loans, minimum credit card payments, student loans, etc. – divided by your gross (before taxes) monthly income. As you lower outstanding debt, both your DTI and purchasing ability will improve. One way to start immediately is to pay down high-interest credit cards.

Credit score and history

Lenders use credit scores and payment history to determine the likelihood a loan will be paid back. The higher the score, the better your chances of getting a mortgage and a lower interest rate. They'll also look at your credit history, which could be impacted by late payments and resulting "charge-offs," collection activity, past bankruptcies or foreclosures. By law, you can get a free credit report at AnnualCreditReport.com once a year, and it will include all three credit bureaus. Getting your credit report now will enable you to see any errors and correct them before you apply for a mortgage.

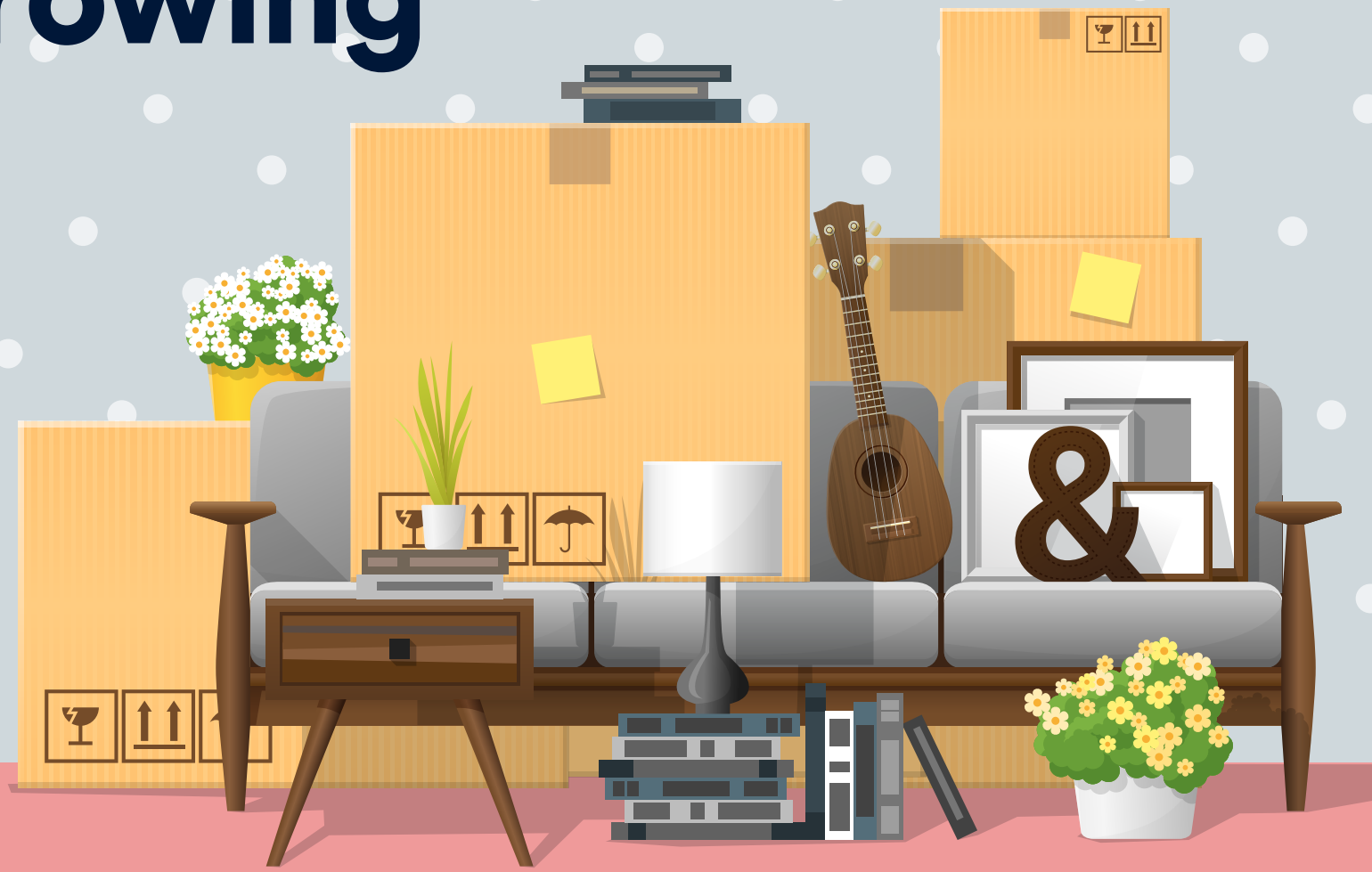
Income stability

Lenders gauge your capacity to pay a mortgage and will want to verify two years of employment. If you're self-employed, you will want to have a profit and loss statement and balance sheet for the current year. A lender will also look at how you get paid. Regular paychecks are generally seen as more reliable income than income that depends on bonuses or commissions, but all income is weighed on an individual basis.

Assets

Lenders will also consider investments, properties, and other assets that you could sell for cash. These reserves help to demonstrate that you can manage your money and have funds, in addition to your income, to pay the mortgage and have funds needed for closing.

The Costs of Borrowing



Understand your current financial position.

Buying a home requires more than coming up with a down payment and sending along a mortgage check. So first develop a budget to understand how much you need to meet monthly expenses. The 50/30/20 rule is a useful guide to help you build a budget to live within your means.

50%

of your income (maximum) should go toward necessities. These are the essential expenses that you have to pay. Your mortgage falls into this category.

30%

goes toward discretionary items, which are personal lifestyle expenses.

20%

should go toward savings, including contributions to retirement and other savings plans, as well as debt payments. You should make these payments after your essential expenses, but before any other spending.

Staying a while?

How long you plan to stay in your new home can also impact your budget and interest rate. A fixed-rate mortgage offers long-term predictability. But, if you're only planning to be in a home for a few years, a lower variable-rate mortgage may save you money.

There are other home buying costs to consider as part of your total budget.

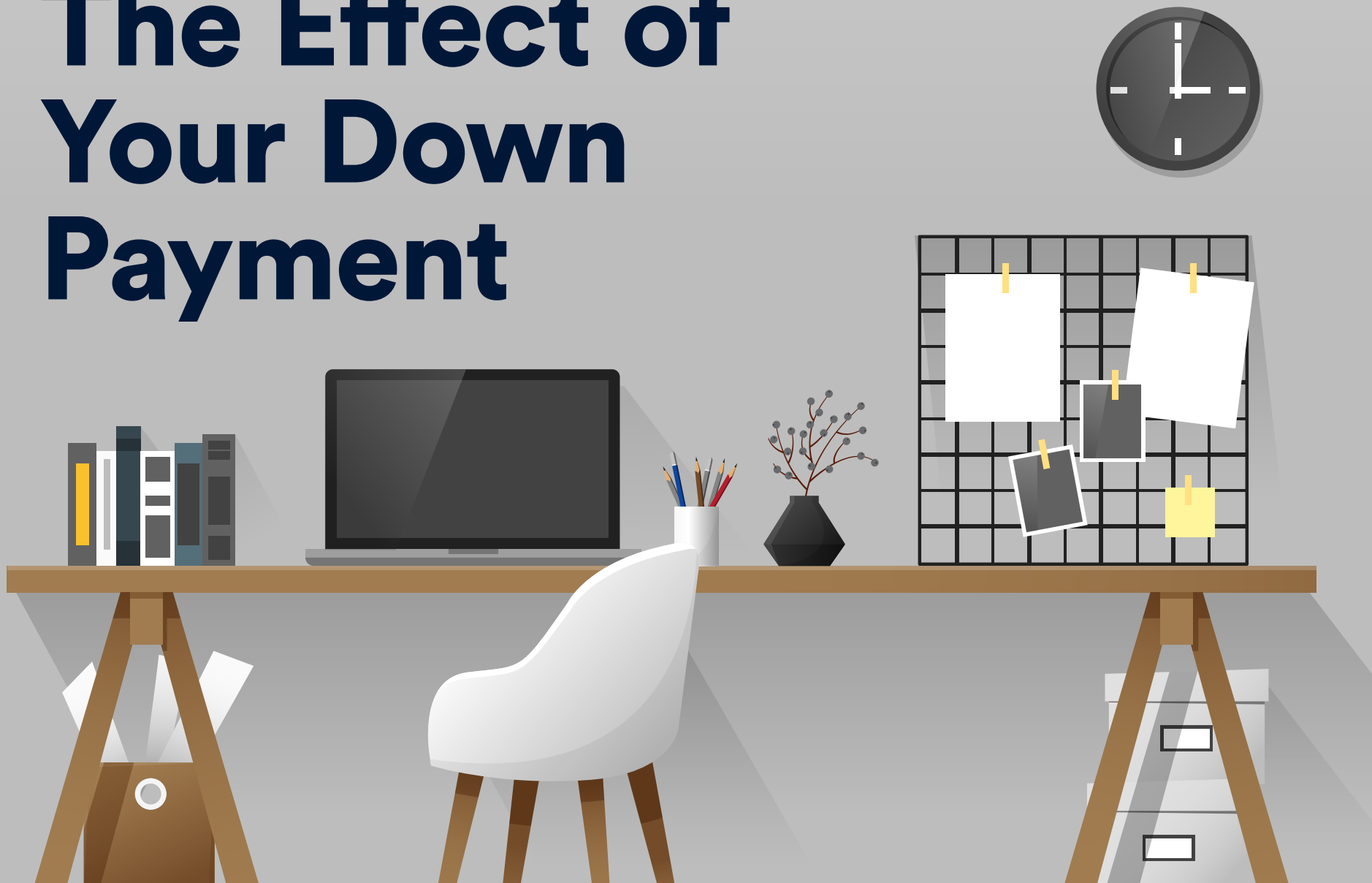
One-time costs	
Home appraisal	$400-$900 depending on home size and location.
Home inspection	$270-$475 depending on home size and location.
Origination fees	0.5%-2% of the total loan amount.
Closing costs	2%-6% of the cost of the home. Includes lender and attorney fees, title insurance, and more.
Moving expenses	Vary depending on if you hire movers or do it yourself.
Repairs	Be prepared for major immediate repairs, particularly in such areas as electrical, cooling and heating systems, plumbing, and roofing.

Recurring costs	
Condominium / maintenance fees	These monthly fees can vary greatly depending on home location, size and amenities.
Homeowners association dues	Some neighborhoods have varying monthly or annual fees for maintenance.

Ongoing expenses

Once you're in your home, ongoing expenses include property taxes, insurance (homeowners, private mortgage, and/or flood), and maintenance. According to a study by Zillow and Thumbtack, the national average for home maintenance costs – house cleaning, lawn care, carpet cleaning, gutter cleaning, pressure washing and HVAC maintenance – is $3,021.

The Effect of Your Down Payment



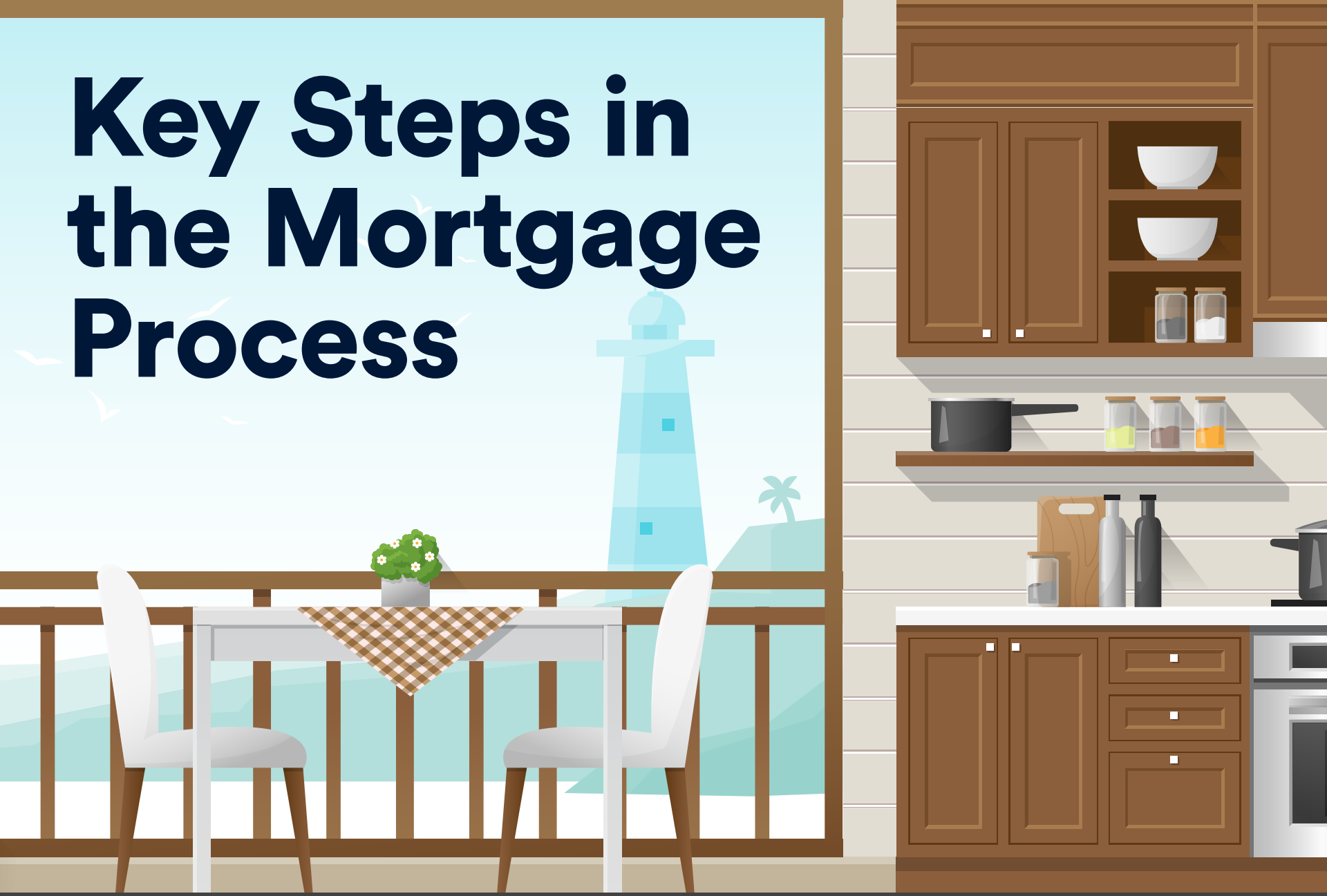
Historically, the standard down payment was 20% of a home's value.

With a down payment of 20% or greater, you will not need mortgage insurance, reducing monthly payments. Higher down payments can also save you a significant amount of money if you qualify for the best interest rates and plan to keep the home for a long time.

Many lenders allow buyers to purchase homes with down payments of less than 20%. While this is an option, realize it could affect how much you are approved to borrow, your interest rate, and require the additional expense of PMI.

Looking for something else? We're here to help guide you down the road to financial success. Find more resources to help you on your journey at laurelroad.com/resource-hub.

Key Steps in the Mortgage Process



Pre-qualify with a lender.

Doing this will help you understand how much you can borrow. You share your overall financial picture – debt, income, assets – with a lender. They may run a credit check and provide an estimate of the amount you would likely qualify for. Pre-qualification can be done online with lenders like Laurel Road.

Get pre-approved.

At this stage, a lender will review your documents such as paystubs, tax returns, tri-merge credit report and bank statements, to evaluate how much they are willing to lend you. Pre-approval is not a guarantee, but you can submit the letter with an offer as assurance that you are a credible buyer, especially in a competitive location.

Find a realtor and/or lawyer.

States vary on whether a realtor and/or lawyer must be involved; find out what is required in yours. Your realtor, lawyer, and/or loan officer can all act as trusted advisors during the home buying process, helping you find the right home for you.

Our smart, simple, and secure online mortgage application provides customized options based on your preferences. To learn more visit **laurelroad.com/mortgage**.

Gather the necessary documents.

While requirements for personal and financial information can vary, there are some documents that will no doubt be required to secure your loan.

- [ ] Your social security number and date of birth, as well as suitable documentation if you've had a recent name change
- [ ] Employment pay stubs, typically for the past 30 days
- [ ] Signed federal tax returns for the previous two years
- [ ] W-2 forms for the previous two years
- [ ] Your two most recent bank statements
- [ ] Documentation of additional sources of income, as needed
- [ ] Documentation showing the source of down payment. If a relative provides you with funds, you will need a signed "gift letter."

The Mortgage Application Process

Pre-qualification & Pre-approval

Find a house and make an offer

Apply for mortgage and order appraisal

Gather and submit docs to lender

Close

Ready to take the smart path to home ownership?
Get started at laurelroad.com/mortgage.