



Dear Future Home Owner,

A home is a financial asset and much more: it's a place to live and raise children; it's a plan for the future; it's an investment in your community. That's why Bruggeman Homes want all eligible individuals to have an opportunity to enjoy the benefits of owning a home. Buying a home is part of the American dream. It is a significant long-term investment that often represents the foundation of our lives, providing financial and emotional security. It is also the largest single transaction most people ever make. And, as the years go by, you can build ownership interest, called equity, which creates wealth and you can borrow against your equity. In contrast to renters, most home owners receive significant tax breaks, because interest paid on a home mortgage is almost always tax deductible. And finally, there's the personal satisfaction of having a home you can call your own to share and enjoy with friends and family.

Bruggeman Homes is proud of our work to help first-time home buyers. Your Bruggeman Homes New Home Specialist and Mortgage Team Member are there to help you make an educated decision about the home purchase and financing package that best fits your needs. Our Mortgage Team Members specialize in tailoring your home financing packages to your short and long-term goals and ensuring that your financing fits with your unique financial picture. Our Mortgage Team Members are committed to sound lending practices, have a proven track record for providing outstanding service to our customers and for having the mortgage loan ready to close on time without surprises! Let our New Home Specialist and Mortgage Team Members show you how purchasing Your New Bruggeman Home can be a friendly and rewarding experience. And ask about our Buyer Assistance Programs that may make purchasing Your New Bruggeman Home easier!.

Knowledge is said to open doors. This statement is literally true when it comes to buying a home. To become a first-time home buyer, you need to know where and how to begin the home buying process. Our First Time Home Buyer's Guide will give you the basic knowledge and the tools necessary to navigate the entire process from deciding whether you're ready to buy all the way to that final proud step of getting the keys to ***Your New Bruggeman Home!***

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Bruggeman", with a long, sweeping underline.

Paul Bruggeman  
President





## First Time Home Buyer's Guide<sup>1</sup>

**Buying vs. Renting.** The most significant advantage of renting is being generally free of most maintenance responsibilities. But by renting, you lose the chance to build equity, take advantage of tax benefits<sup>2</sup> and protect yourself against rent increases. Also, you may not be free to decorate without permission and may be at the mercy of the landlord.

Owning a home has many benefits. When you make a mortgage payment, you are building equity which is an investment. Owning a home can also qualify you for tax breaks that actually lower you're out of pocket costs. But given the freedom, stability and security of owning your own home, it is worth it.

**Can I really buy a home?** For millions of people every year, the answer is "yes" and Bruggeman Homes has a long history of helping turn renters into owners. Bruggeman Homes is proud of our work to help first-time home buyers and as a first-time home buyer, you'll be in good hands with Bruggeman Homes and one of our Mortgage Team Partners.

We want all Americans to have an opportunity to enjoy the benefits of owning a home. We offer Buyer Assistance Programs including low-and no-down-payment programs and reduced closing costs that help speed you into home ownership by overcoming the savings hurdle for qualified buyers.

And our Mortgage Team Partners can also help individuals with credit challenges to gain greater control of their finances.

**A New Home vs. a Used Home?** When choosing between new or used, consider that a new home from Bruggeman Homes typically offers more insulation, better energy efficiency (which means lower utility bills), brand-new appliances, and warranties that cover Your New Home from the foundation to the roof. A New Bruggeman Home is ready for you to move into without the hassles of repainting and cleaning. You'll also be treated to current innovations in building, so you won't have to worry about past dangers like lead paint or asbestos. And, when you're part of the building process from the foundation to the roof, you can feel secure that Your New Home is built to last.

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<sup>1</sup> This guide is a general overview of the purchase process and is not an offer, pre-approval or commitment to sell or lend mortgage funds. Information in this guide may not apply to your individual situation and you should obtain competent advice before making any purchase or borrowing decision. With the rapid changes occurring in the programs, products and services offered within the home financing industry, we do not guarantee the accuracy of the information presented. Bruggeman Homes is not responsible for the products or services offered by Our Mortgage Team Partners. ©2007 All rights reserved.

<sup>2</sup> Consult with your tax advisor on the tax benefits you can receive with the purchase of Your New Home.

Plus, your new Bruggeman Home is built just for you. It reflects your personal tastes, not someone else's tastes that may be outdated. We do the homework for you, exploring the latest in energy-efficient appliances, flooring, foundations, interiors and more. Then we let you do the fun part - you get to imagine the possibilities. With your new Bruggeman Home, you pay only for what's important to you, whether it's a fireplace or gourmet kitchen, an oversized tub or hardwood floors.

And you will receive these benefits with Your New Bruggeman Home:

- You will be the first person to walk on the carpet, cook on the stove and barbecue on the patio. You can relax and enjoy your home instead of using your free time for fixer-upper repairs.
- New homes are energy efficient, and you have the option of wiring for today's (and future) technology. And you will have a place for your big screen TV!
- You can move into Your New Home personalized for You when it's completed. You won't be saddled with last-minute inspections and surprises which often happen with a used home after closing.
- It's often easier to get to know your neighbors when you all have your new neighborhood in common.
- You have the peace of mind of a 10-year limited warranty, something you won't get when you buy a used home.

**Our New Home Specialist can help.** Bruggeman Homes teams you with one of our knowledgeable New Home Specialists who have the experience and information to address all your home buying needs. And you can begin the process today without obligation.

Imagine having thousands of design choices at your fingertips, and the opportunity to choose the features and amenities you've always dreamed of for Your New Bruggeman Home. Let Your New Home Specialist guide you through all the possibilities at the Personalization Studio located in our Neighborhood's Sales Center. You select your favorite flooring, cabinets, appliances, lighting, countertops and so much more. All with brand names you know and trust. It also means you pay for everything you want, and nothing you don't. All selections are pre-priced so that you can make informed value decisions as you select and your mortgage lender may allow the cost of these features and amenities to be included in your mortgage. And you will get a completely finished home to move into on time built just the way you want it.

Waiting for your dream home to be complete is hard! But Bruggeman Homes will not cut corners or compromise quality in order to speed up the process. Because you are selecting from our thousands of design choices, we can eliminate the delays normally associated with unique custom features. Our New Home Specialist will be able to quote you a move-in date after the selection process that you can "Plan On"!

**Our Mortgage Team Partners work with you.** Bruggeman Homes recommends our Mortgage Team Partners as leading mortgage lenders offering a full range of standard home loan programs with a variety of rate, term and cost options to answer individual home buyer needs. These Mortgage Team Partners are committed to sound lending practices, and have a proven track record for providing outstanding customer service and preparing the loan for closing on-time without surprises!

# The Mortgage Basics

This First Time Home Buyer's Guide is to help you learn about the home buying process, so that you can make informed decisions. First we will discuss the different components of a mortgage loan and then we will discuss how these features can be used to meet your personal situation. And our New Home Specialist and Mortgage Team Partner will be there at every step to help and assist you.

**What is a Mortgage?** A mortgage is a loan secured by the real estate which in this case will be the home you are purchasing. In other words, in return for the funds necessary to purchase a home, a mortgage lender gets your promise to pay back the funds over a certain period at a certain cost. Backing your promise to repay is the property. Should you default, or stop paying, the loan, the lender would take over ownership of that property. Typically, the repayment of a mortgage occurs through monthly payments.

**What does my mortgage payment include?** Usually, your monthly mortgage payment is made up of four parts: **Principal, Interest, Taxes and Insurance (PITI)**.

**Principal** is the amount of money you borrow based on the sale price of the home. In the early stages of your mortgage term, your monthly payment includes only a small portion that repays your original principal. As you continue to make payments through the years, a greater portion of your payment goes to reduce the principal.

**Interest** is the cost of borrowing money. In the early stages of your mortgage term, your monthly payment is mostly interest. As you continue to make payments through the years, a smaller portion of your payment goes to interest.

**Taxes** are paid by home owners to local governments, and are usually charged as a percentage of the assessed property value. Tax amounts vary depending on where you live. Instead of paying the entire tax payment due in May and October, the borrower pays a portion of the cost along with every monthly mortgage payment. This helps the borrower avoid the hassle of planning for the large payments, while reassuring the lender that the property tax payments are always up to date.

**Insurance** offers financial protection in the event of a loss and has two main components that can be included as part of your payment.

Home owner's or hazard insurance protects you against financial losses on your property as a result of fire, wind, natural disasters or other hazards. Most lenders will require you to have a home owner's insurance policy on your home because it will help protect their investment as well as yours. Instead of paying the entire premium every six or twelve months, the borrower pays a portion of the cost along with every monthly mortgage payment. This helps the borrower avoid the hassle of planning for the large payments, while reassuring the lender that the insurance payments are always up to date.

Mortgage insurance (MI) is required on certain loans to protect the lender against financial losses if the borrower fails to repay the loan. Usually, whenever the down payment is less than 20% of the home's purchase price, lenders require some type of insurance. Loans insured by FHA/HUD programs require a mortgage insurance premium (MIP), while VA loans require a funding fee. Conventional loans, or those without government backing, can be insured with Private Mortgage Insurance (PMI). Typically, the portion of your monthly mortgage payment

that covers taxes and insurance is held in a special account by your lender. Then, when these bills are due, the lender forwards payment on your behalf to the local government or insurance company. This process is known as escrow. Using escrow for taxes and insurance is an option for the home owner and not a requirement. Once your mortgage is paid in full, you are still responsible for taxes and hazard insurance.

If you live in an Association Maintained Neighborhood, the Association may have a Monthly Fee that you typically pay separately from your Mortgage Payment.

**How do I qualify for a Mortgage?** Mortgage lenders generally will decide if you qualify for a mortgage based on the "Four 4 C's of Credit": Credit history, Capacity to repay, Cash to close and Collateral. Different mortgage products have varying guidelines within those standards.

**Credit History** Your credit history involves what you've borrowed in the past, and how well you've paid it back. Have you been late in making your payments? Have you filed for bankruptcy? Do you have a record of judgments and collection accounts filed? Our Mortgage Team Members offer special products for home buyers with past credit problems. There is one other thing that is important to remember: A lender cannot reject your loan application based on a lack of credit history or your decision not to use credit. If you do not have an established credit history, or if you do not use traditional credit, the lender must develop a credit history from utility payment records, rental payments, automobile insurance payments or other direct reports from credit providers. You may need to show paid receipts and canceled checks to document a pattern of paying your monthly obligations on time.

**Capacity to Repay** Capacity refers to your income and your ability to handle the monthly housing payments. Do you have steady and sufficient income to make the monthly payments? This income can come from a primary, second, or part-time job(s), overtime and bonuses, commissions, self-employment, retirement benefits, pensions and annuities, public assistance, child support, alimony or maintenance payments, veterans benefits, disability payments or rental property income. In most cases, you need to provide documentation regarding your income. Alimony and child support need not be noted unless you want to have them included as the basis for repayment of the debt. Consult with our Mortgage Team Partners if you have difficulty documenting your income for possible other mortgage approval criteria that may meet your situation.

**Cash to Close** Cash to close refers to money for the down payment and closing costs. Have you saved any money that can be used toward the purchase of your home? The savings can be money in a savings account, certificate of deposit, retirement [401(k)] account, or a gift from a relative or friend. A lender wants to see that you have the capital to fulfill your current obligations as well as your new mortgage. Ideally, you should have enough savings to act as a source of funds for your down payment and several months of reserve funds to cover your anticipated monthly mortgage payments should anything happen to you or your job.

**Collateral** Collateral refers to the home you're buying. Your lender will require an appraisal on your home to determine its market value in comparison to similar homes that sold recently in the neighborhood. Your lender will also look at the type of the property and whether there are additional fees such as home owner's association monthly fees. If you'd like to be pre-approved for a mortgage loan, you do not need to have a property in mind. You can work with our Mortgage Team Partner before you select your home to determine the purchase price you can afford.

**How much home can I buy?** Our Mortgage Team Partners are always available to discuss your personal financial situation PRIOR TO purchasing Your New Home with no further obligation. They will look at all the elements that make up your individual financial profile, including your credit history, the cash you have available for a down payment and closing costs, your income and your existing debt and financial obligations. Using this information and the current market interest rate, our Mortgage Team Partner can give you an estimate of the maximum mortgage amount you can afford. By adding your maximum mortgage amount to the funds you plan to use for your down payment, you will know your home purchase price range.

**How large of a loan can I be approved for?** There are two simple ratios used by lenders to show what percentage of your income is available for a mortgage payment. Lenders generally use these ratios as guidelines to determine the loan amount for which you may qualify. These guidelines also help you decide that your housing expenses and debt payments do not take up too much of your income.

The first guideline, known as the housing “**expense-to-income ratio**” (or “front-end” ratio), compares your proposed monthly house expense to your total household gross pretax monthly income. The monthly housing expense includes loan principal and interest, private mortgage insurance, hazard insurance, property taxes, and homeowner's association dues. This number indicates the maximum percentage of your monthly gross income that the lender allows for housing expenses.

$$\text{expense-to-income ratio} = \frac{\text{monthly housing expense}}{\text{gross monthly pretax income}}$$

The second guideline, known as the “**debt-to-income ratio**” (or “back-end” ratio), shows how much of your gross income would go towards all of your debt obligations, including housing expense, car loans, child support and alimony, credit card bills and student loans. This number refers to the maximum percentage of your monthly gross income that the lender allows for housing expenses plus recurring debt.

$$\text{debt-to-income ratio} = \frac{\text{total monthly debt expense}}{\text{gross monthly pretax income}} \times 100$$

Typical maximum ratio guidelines used in most loan programs are 28/36 ratios, which meant you could devote up to 28% of your gross monthly income to housing expenses (the front-end ratio), while your monthly housing expenses plus your monthly debt combined could be as high as 36% (the back-end ratio). Many of today's loan programs offer expanded guidelines and more flexible qualifying ratios (such as a 29/41 ratios or even higher under certain FHA programs) that allow you to devote more of your gross monthly income to your combined monthly debt.

Our Mortgage Team Partner can help you get a better idea of the maximum mortgage amount that you can qualify for. Depending on your financial profile and the mortgage program you choose, our Mortgage Team Partner may use standard or flexible ratios as a part of the qualifying process. Once you have this maximum figure, it's up to you to decide if this is the right amount for you, or if you would feel more comfortable with a smaller mortgage and a lower monthly payment.

**How important is my credit?** Your credit report is an important consideration to lenders reviewing your financial profile. If you have a history of paying your monthly obligations on time, that's a signal to a lender that you are likely to make your monthly mortgage payments on time as well. So your credit can be a factor in the kind of mortgage program you may qualify for. Your credit history can also affect the amount required for a down payment, the amount of

money you can borrow in relation to your income, and the interest rate you are offered. But keep in mind that even if you have no established credit history or less-than-perfect credit, there are still loan programs that can help you buy a home. Here are some steps you can take to establish or improve your credit rating:

- If you've always paid cash or used checks to make purchases and haven't established a credit record, it's a good idea to do so before you buy a home. You can use credit to purchase low-priced items, make prompt payments and pay off the balance.
- Some loan program guidelines allow "alternative" credit records. If you have a limited credit history, your paid receipts and canceled checks for rent and utility payments can help you document a pattern of paying your monthly obligations on time.
- If you already have outstanding loans or credit card debts, try to pay off as many as possible. The amount of monthly debt you are responsible for paying reduces your capacity for taking on housing debt (via the back-end ratio, discussed above).

Even if you are a consistent, on-time bill payer, you can damage your credit rating by just having a lot of credit cards with large credit lines. Contact any creditors for accounts which you no longer use and request that they close the account.

**How much do I need for a down payment?** In the past, saving money for a down payment on a home was often the largest obstacle to home ownership with lenders requiring a minimum of a 20% down payment. But today's flexible home loan programs make this issue less of a challenge, with some programs allowing you to put very little down (3% or less). In fact, you may qualify for programs that don't require down payments at all. Some home buyers may be eligible for local down payment assistance programs. If one is available in your area, our Mortgage Team Partner can give you further details. If you decide to use less than a 20% down payment, your lender may require some type of Mortgage Insurance (PMI). These insurance programs protect the lender in the event you do not fulfill your commitment to repay the mortgage.

**What about closing costs?** Closing costs cover the amount of money you pay to close a mortgage loan aside from the down payment. The amount you pay in closing costs varies among lenders, mortgage products and localities. The closing cost fees generally fall into one of three categories: out-of-pocket expenses, pre-paid items and points.

**Out-of-pocket expenses** usually cover third-party services that are directly charged to you such as fees for appraisals, credit reports, deed recording, or state mortgage tax and other minor state fees. If you don't understand what a particular fee covers, or why you are required to pay it, ask our Mortgage Team Partner to explain.

**Prepaid items** can vary based on the type of property and the time of the closing, but they generally include home owner's insurance, mortgage insurance, and fees associated with establishing an escrow account set up by lenders to pay property tax and insurance premiums. Using an escrow account is an option and not a requirement. The Buyer also reimburses the Seller for the unused portion of any prepaid item on a prorated basis as of the date of closing. An example of an item to be pro-rated is property taxes from the date of closing until the next property tax payment due date..

**Points** are fees, with each point representing 1% of your loan amount, that cover the cost of your mortgage loan. Generally, points can be split into two categories:

- Origination points: This is an amount collected by the lender for making the loan and you should expect a 1 point origination fee.

- **Discount points:** As discussed later in this guide, this is a fee that allows you to buy down your interest rate. In other words, in return for paying more discount points upfront, you can lower your interest rate and thus your monthly payment.

To make the best apples-to-apples comparison on home financing packages, be sure that the rates all have the same number of total points and that you factor in the total amount you will be paying in closing costs. While one loan may offer a lower rate, it may also require you to pay a higher number of points at closing and more money out of pocket for you. Also, don't forget to consider loan features and service after closing in addition to the rate, APR, and points when you compare different loan programs.

Our Mortgage Team Partner can give you information on average closing cost percentages for specific loan programs. And, shortly after you apply for a home mortgage, you will be sent a Good Faith Estimate, which provides details on the approximate costs you will be required to pay at or before closing. While it is only an estimate, it can help you budget for your closing.

**Can Bruggeman Homes' Buyer Assistance Program<sup>3</sup> help?** Let our New Home Specialist show you how our Buyer Assistance Program can help you with down payment and closing cost assistance making Your New Home that much easier to buy.

## Making Choices

**What kinds of mortgages are available?** It's a good idea to gain a basic understanding of the kinds of home mortgages that are available. As you review the list, keep in mind that these categories widely overlap. Our Mortgage Team Partner can help you determine the best loan to fit your needs and design a custom financing solution for you.

### Mortgages insured or guaranteed by the Government.

**FHA Loan.** The Federal Housing Administration (FHA) insures a wide variety of mortgages designed to meet the needs of home buyers with low or moderate incomes with a maximum loan amount up to \$276,683 in the Minneapolis/Saint Paul metro area. FHA-insured loans offer many benefits and protections that you won't find in other loans including:

**Lower cost:** FHA loans have competitive interest rates because the Federal government insures the loans for lenders. Always compare an FHA loan with other loan types.

**Smaller down payment:** FHA loans have a low 3% down payment and the money can come from a family member, employer or charitable organization as a gift. Other loan programs don't allow this.

**Easier qualification:** Because FHA insures your mortgage, lenders may be more willing to give you loan terms that make it easier for you to qualify.

**Less than perfect credit:** You don't have to have perfect credit to get an FHA mortgage. In fact, even if you have had credit problems, such as a bankruptcy, it's easier for you to qualify for an FHA loan than a conventional loan.

**More protection to keep your home:** The FHA has been around since 1934 and will continue to be here to protect you. Should you encounter hard times after buying your home, the FHA has many options to help you keep you in your home and avoid foreclosure.

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<sup>3</sup> Subject to availability and credit limitations apply.

The FHA does not give money to people for a home and it does not set the interest rates on mortgages it insures. FHA insures loans for lenders against defaults.

**VA Loans.** The Department of Veterans Affairs (formerly the Veterans Administration) guarantees mortgages for qualified veterans and active-duty military personnel and their spouses who are first- or second-time home buyers. VA loans feature:

- Low or no down payment requirements
- A wide range of rate, term, and cost options
- Flexible qualifying guidelines
- Use of gift funds for closing costs

## **Mortgages NOT insured or guaranteed by the Government.**

**Conventional Loan.** Conventional loans are loans that are not insured or guaranteed by the government. Conventional mortgage loans offer many benefits and protections that you won't find in other loans including:

**Higher Mortgage Loan Amounts:** A prime conventional loan offer loan amounts up to \$417,000.

**Mortgage Insurance:** Allows a Home Buyer to eliminate the cost of mortgage insurance with an adequate down payment under certain conditions.

## **The different forms and features of a Mortgage.**

**Fixed-Rate Mortgages.** A Fixed-Rate Mortgage applies the same interest rate toward monthly loan payments for the entire life of the loan offering predictable monthly payments of principal and interest. Fixed-rate mortgages are popular with first-time home buyers providing protection from rising rates, no matter how high market rates go up. Fixed rate mortgages are generally well-suited to borrowers who plan to stay in their homes for a long period of time, have a fixed or slowly-increasing income, or have a lower tolerance for financial risk. Since the risk to the lender is higher, fixed-rate mortgages generally have higher interest rates than ARMs.

For example, a lender can offer a 30-year fixed loan to a home buyer at a 7.0% interest rate. The loan is locked in to the 7.0% interest rate, even if the market interest rate rises to 9.0%. Conversely, if the market interest rate decreases to 5.5%, the borrower will continue to pay the 7% interest rate.

**Fixed-Rate benefits include:**

- No change in monthly principal and interest payments regardless of fluctuations in interest rates
- More stability may give you "peace-of-mind"

**Fixed-Rate considerations include:**

- Higher initial monthly payments compared to those of adjustable rate mortgages
- Less flexibility

**Adjustable-Rate Mortgages.** An Adjustable Rate Mortgage (ARM) does not apply the same interest rate toward monthly payments for the life of the loan. Throughout the life of that loan, the interest rate adjusts periodically to reflect market conditions on pre-determined dates and interest rate indexes. An ARM may make sense if you are confident that your income will increase steadily over the years or if you anticipate a move in the near future and aren't concerned about potential increases in interest rates.

For example, a lender could offer a 30-year ARM loan to a home buyer at an initial 6.5% interest rate. During an adjustment period for the ARM loan, the market interest rate could rise to 7.5%, resulting in a significantly larger interest payment. Similarly, the market interest rate could decrease to 6.25%, resulting in lower interest payments.

**A typical ARM loan operates with:**

- A “**start rate**”, also known as the initial interest rate, gives you a special low monthly payment for a set amount of time (such as 1 year).
- After the start rate period is over, your interest rate is based on the performance of a financial index, such as the average interest rate or yield on Treasury bills.
- How often your payments are adjusted based on the index, and how much rates and payments increase at each “**adjustment**”, depends on your loan terms. A 6-month ARM adjusts every 6 months. A 1-year ARM adjusts once a year.
- At each adjustment, the “**new rate**” is computed by adding the “**margin**”, a predetermined amount that remains the same for the life of your loan to your financial index. Example: If the interest rate for the financial index was 5.0% and your margin 2%, then your rate at the time of adjustment would be 7.0%.
- Two “**caps**” may put a limit on the maximum amount your rate can increase. The periodic cap sets the maximum your rate can go up from one adjustment period to the next. The life cap sets the maximum interest rate for the life of the loan.
- Some ARMs offer a “**conversion**” feature that allows you to convert to a fixed rate loan at certain times during your loan.

**ARM benefits include:**

- Initial payments lower due to lower beginning interest rate, usually about 1 to 2 percentage points below the fixed rate and the initial rate can be locked in for different introductory periods of one, three, five, seven, or ten years. Typically, the rate readjusts annually after the introductory period.
- Ability to qualify for a higher loan amount due to lower initial interest rates
- Lower interest payments if the interest rate drops over time
- Borrowers are protected from steep increases in rates through annual and lifetime adjustment caps.
- Interest rate caps limit the maximum interest payment allowed for the loan
- May be more appropriate for borrowers who may want to sell or refinance early, can afford to make larger monthly payments after the rate adjusts, or are looking to buy a home when interest rates are relatively high.

**ARM considerations include:**

- Initial lower interest rate and monthly payments are temporary and apply to the first adjustment period. You have to be prepared for the possibility that the interest rate will rise after the initial adjustment period and you need to determine if you are able and comfortable with an increased mortgage payment after the adjustment if the adjustment was the maximum allowed.
- Higher interest payments if the interest rate rises over time

**30 Year vs. 15 Year Mortgage Terms.** Typically, a 30-year mortgage term will have lower monthly payments than a 15-year mortgage term. If you decide on a 15-year loan, you will pay significantly less in total interest over the life of the loan, but your monthly mortgage payments will be higher. As a home buyer, you will need to consider the implications of supporting higher monthly payments when accepting a 15-year term. Can you consistently meet those monthly payments over time? Look at the table on the next page.

**30 Year benefits include:**

- Lower monthly payments
- Qualifying with the lower monthly payment is easier
- You have more cash for other expenses
- More money goes towards Tax Deductions

**30 Year considerations include:**

- Higher overall mortgage costs
- You pay more in overall interest
- You have debt for 30 years
- Higher interest rate

**15 Year benefits include:**

- Lower overall mortgage costs
- Builds equity faster
- You have debt for only 15 years
- Lower interest rate

**15 Year considerations include:**

- Higher monthly payments
- Qualifying with the higher monthly payment is harder
- You have less cash for other expenses
- Less money goes towards Tax Deductions

**Rates and Discount Points.** The interest rate determines the monthly interest payments over the lifetime of the loan. A "discount point" is a front end cost of the mortgage equivalent to 1% of the loan amount and usually reduces or "discounts" the loan rate by an eighth of a percentage point.

For example: You want to get a loan for \$200,000 to buy a home. Each "point" would cost you 1% of \$200,000 or \$2,000 but would reduce your loan's interest rate by .125%. The lender might offer you an 8.0% loan with zero points, a 7.875% loan with one point, or a 7.75% loan with 2 points.

Points, like the down payment, are paid at closing. In some cases, lenders will allow borrowers to finance the points over the term of the loan. Lenders sometimes use points to make their interest rates appear lower. Be aware that lower interest rate offered by a lender may translate into higher point requirements.

A final consideration is your tax situation<sup>4</sup>. Points can usually be deducted for the tax year you purchase a home. Consider the case where you're planning to live in a home for a long time and want to lower a rate with points. You could give yourself a substantial tax deduction that year, plus reduce the cost of the loan to you over the long term. Or, you may want to hold on to your cash and take advantage of the tax deductibility that comes with a higher rate each year.

**Should You Pay More or Less “Up-Front Fees?”** The size of the down payment and the money paid at closing can affect your mortgage in a number of ways. Higher up-front payments result in:

- lower monthly payments
- lower private mortgage insurance (PMI) costs (if applicable)
- lower interest payments

In fact, making a down payment of 20% or more can save the home buyer money by avoiding the monthly mortgage insurance payments. On the other hand, lower up-front costs mean that your

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<sup>4</sup> Please consult your tax advisor for your personal situation on deducting mortgage points.

cash requirements at closing are much less, although monthly payments may be somewhat higher. These lower up-front costs may be a significant benefit for first-time home buyers and people who simply don't have a lot of cash on hand.

**Loan Features to Address Special Needs** Our Mortgage Team Partners have one of the most extensive product menus in the industry. Ask our Mortgage Team Partner to create your Personal Solution to achieve your dream. The following chart shows you some of the loan features that can help address your specific needs:

- **No Money Down Mortgages** offer borrowers a home loan program with no down payment requirements. Perfect solution for home buyers who are short on funds for a down payment or reluctant to liquidate investments and trigger a taxable event.
- **Non-Traditional Loans** can assist home buyers who are self-employed, on commission or whose financial situation may be difficult to document. Non traditional loans can also assist home buyers with non-traditional or less-than-perfect credit backgrounds by requiring little or no down payment, as well as flexible income, credit and debt guidelines. Non traditional loans may also offer additional incentives to qualified public employees, such as teachers, health care workers, fire fighters, police officers, and EMT's.
- **Closing Cost Financed Loans** by financing many of the closing costs with a slightly higher interest rate, the cash needed to close is minimized. Makes closing costs more manageable by incorporating them as part of the loan payment.
- **Lock & Re-adjust Loans** enables borrowers to shop with confidence by locking in an interest rate. If the financial market improves, you may seek to exercise a one-time float down option to obtain new pricing subject to the terms of the loan approval which can help protect home buyers against rising rates during lengthy construction time frames..
- **Permanent Mortgage + Equity Loans** combine a first mortgage with a home equity loan to allow for smaller down payments. This loan package typically eliminates the need for mortgage insurance on the permanent mortgage reducing its payment but the Home Equity Loan typically requires a higher interest rate and shorter loan term which increases its payment. In some cases, these programs allow a home buyer to purchase a more expensive home with less of a down payment.
- **Jumbo loans** are loans that exceed \$417,000 and rates are generally higher on jumbo loans than on smaller comparable loans.
- **1 Close Construction to Permanent Mortgage Loans** are Construction Loans that automatically convert to a Permanent Mortgage Loans when construction is complete with only one closing prior to starting construction.

**Consider up-front costs and “APR” when comparing loans.** When you're comparing mortgage rates and programs, it is important to also consider the loan costs and fees. Be sure to ask if the quoted interest rate reflects payment of points. Many loan programs allow you to receive a discounted interest rate by paying a fee in points or origination fees. One point equals 1% of the loan amount, and the more points you can or wish to pay, the more you can lower your rate. Paying points is not a requirement; it's just an option that lenders offer to accommodate the immediate or long-term monthly payment concerns of home mortgage customers. Our Mortgage Team Partners typically quotes rates with 1 total point (zero discount points and one origination point).

In an order to reduce confusion comparing loans, the US Government passed the Truth in Lending Act. One of the provisions of this act is that lenders quote APR to potential borrowers. When you're shopping for a home mortgage, make sure you ask lenders for the annual percentage

rate (APR) as well as the interest rate, so you compare it accurately to other available mortgage rates.

**The Annual Percentage Rate (APR)** includes more than just the interest cost of a loan. In addition to the interest rate which determines the amount of your monthly payment, the APR adds in the other costs and fees required to make the loan to determine your loan's total finance charge. The APR might include Private Mortgage Insurance, processing fees, and discount points. The APR is expressed as a percentage over the FULL scheduled life of your loan.

APR Disclosures have limitations. For example, one-time charges up front may drive up your actual cost on a loan even though an APR calculation might assume those charges are spread out over a longer lifetime (and therefore the APR would look lower). Although it's not perfect, it gives you a nice standard for comparing the percentage costs on different loans. This page covers the basics of APR, and how you can calculate it.

Another effective shopping technique is to compare identical loans with different up-front points and other fees. For example, compare two 30-year fixed rate loans for \$200,000. Lets compare Loan A with an Interest Rate of 8.250%, an APR of 8.412% over the loan term and \$2,000 in up-front points to Loan B with an Interest Rate of 8.125%, an APR of 8.396% over the loan term and \$4,000 in up-front points. How much you're paying for each loan up front can matter quite a bit if you're either planning to sell the house in less than six years or you're trying to keep down your closing costs.

<b>30 Year Fixed Rate for \$200,000 with 1 point origination</b>	<b>Loan A. and no discount points</b>	<b>Loan B. and 1 discount point</b>
Interest Rate .....	8.250% .....	8.125%
Loan Origination Points .....	1% (\$2,000).....	1% (\$2,000)
Discount Points .....	0.....	1% (\$2,000)
APR <sup>5</sup> .....	8.412% .....	8.396%
Monthly Payment .....	\$1,502.53.....	\$1,484.99
Principal Reduction Savings		
Loan B over Loan A after 6 years .....	n/a .....	\$257.45
Payment Savings		
Loan B over Loan A after 6 years .....	n/a .....	\$1,262.88
Total Savings		
Loan B over Loan A after 6 years .....	n/a .....	\$1,520.33
Out of Pocket Savings		
Loan A over Loan B at Closing (Points).....	\$2,000.00.....	n/a
Tax Savings on Points <sup>6</sup> .....	-\$500.00	
Net Out of Pocket Savings .....	\$1,500.00	

In this example<sup>7</sup>, Loan B is the better value over the life of the loan as shown by the lower APR if you can afford the additional up-front costs. Loan A may be the better value if you know you'll sell the house in less than 6 years since you haven't recouped the extra \$2,000 for discount points paid out of pocket at closing.

<sup>5</sup> Assumes an additional \$1,000 in closing costs.

<sup>6</sup> Please consult your tax advisor on the after tax savings for your situation.

<sup>7</sup> Sample loans are for illustration only and are not a rate quote, pre-approval or commitment to lend. Every loan combination with different rates, points and term may be unique and create different results than the 6 year time period shown above.

**Mortgage loan strategies to meet your goals** There are home loans for every type of home buyer. The goal here is to match the benefits of a specific loan type with your goals for owning a home. Here's a chart to start you thinking.

### **Your Home Ownership Goal**

Plan to live in your home for many years.

Plan to sell or refinance your home in just a few years.

Want to pay off home loan by the time your children are in college.

Want to budget for a fixed payment each month.

Comfortable with periodic changes to interest rate if it means you can get more home now.

### **Your Loan Strategy**

Since you're going to be making payments for years to come, your best strategy may be get a low interest rate over a long period of time with a **fixed rate loan** and paying points to get your rate as low as possible.

You should avoid points and closing costs since the difference in interest payments won't typically make up for your out-of-pocket costs at closing as shown in the example above. Also try for a smaller down payment. A **fixed period ARM** is a good choice for holding rates down for a set number of years.

You should consider shorter term loans such as a **15 year fixed rate** to ensure you can use income for other goals later in life. Plus you build equity faster.

You should consider a **fixed rate loan** which has a principal and interest payment that remains the same for the entire term of the loan.

**Adjustable rate mortgages** are a great solution for people with incomes that are going to grow and will quickly refinance or be able to afford a larger payment in a few years should interest rates rise. You should determine if you are comfortable with an increased monthly payment if the adjustments are at the annual and lifetime adjustment caps.

**Locking or floating your loan approval.** Typically the money for of your mortgage loan comes from investors buying securities in a secondary market backed by a pool of mortgages that includes your mortgage. Asking your mortgage lender to guarantee the interest rate into the future puts the lender at risk of financial market fluctuations in interest rates between the time the lender quotes the interest rate and when the loan closes which is required for the lender to sell the loan in the secondary markets. A lock can give you a specified time period of protection from these financial market fluctuations. A lock fixing the interest rate for up to 60 days from approval is typical and normally does not incur premium interest rate pricing. Extending the lock past 60 days normally incurs premium interest rate pricing and the premium pricing increases as the duration of the interest rate lock increases. In essence with an extended lock, you are buying insurance against increased interest rates with a premium in the form of a higher interest rate.

If you think your closing will be more than 60 days after your loan approval, you may choose to float your pricing rather than pay an interest rate premium. Your rate will fluctuate with the market. The benefits to floating are you avoid a higher premium interest rate due to the lock and you would have the option of locking at a lower level if rates should interest rates decrease. The risk, of course, is that you would face a higher interest rate should interest rates rise higher than the interest rate premium quoted for the lock period before you lock. You would generally lock the interest rate once within 60 days of your closing.

In either case, make sure the lock period allows enough time for your loan to be processed and construction to be completed. If your lock period expires before you're ready to take ownership of the house, your loan pricing may be adjusted to reflect current market conditions.

No one knows if rates will rise or fall, so it's impossible for our Mortgage Team Partner to tell you whether or not you should lock or float your loan. The decision is yours.

**Shopping other mortgage lenders.** Although we recommend one of our Mortgage Team Partners because of their commitment to sound lending practices, reputation for performing outstanding customer service and preparing the loan for closing on-time without surprises, you are free to shop other mortgage lenders.

When working with other mortgage lenders:

- Do NOT let a lender pressure you into a costly loan.
- Do NOT let anyone persuade you to make a false statement on your loan application, such as overstating your income, hiding the source of your down payment, concealing the nature and amount of your debts, or even claiming how long you have been employed. When you apply for a mortgage loan, every piece of information that you submit must be accurate and complete. Lying on a mortgage application is fraud and may result in criminal penalties for you as well as the other person.
- Do NOT let anyone convince you to borrow more money than you know you can afford to repay. If you get behind on your payments, you risk losing your house and all of the money you put into your property and possibly owing even more money.
- Do NOT let your emotions talk you into buying too much house or accepting information that you don't understand. Bruggeman Homes offers homes at many different prices that would be "perfect" for you. And many lenders will give you the deal that is right for you. Don't be emotional.
- Never sign a blank document or a document containing blanks. Write "N/A" (meaning "not applicable") or cross through any blanks. If information is filled in by someone else after you have signed, you may still be bound to the terms of the contract.
- Read everything carefully and ask questions. Never sign anything that you don't understand. Before signing, have your contract and loan agreement reviewed by a real estate lawyer, consult a trusted real estate professional, or ask for help from a HUD-approved housing counseling agency.

**How to spot a Predatory Lender.** There are some lenders that will put greed before your needs. They may charge you much higher fees than normal or a higher interest rate than your credit deserves. They may even charge fees they don't tell you about or for services you don't receive. Some lenders will rush you and not explain the details of the loan, even when you ask questions. Good lenders will treat you and your credit with respect. We can provide the information you need to make a good choice. Unfortunately, predatory lenders do not have horns and tails. They will seem like nice, friendly, helpful people. They are trained to gain your trust. So, how will you know one?

- 1) None of your questions get answered. Or their answers don't really make sense. **A good lender can explain your loan in everyday language.**
- 2) They pressure you to sign things before you're ready or rush you through the paperwork. **A good lender won't pressure you.**
- 3) They don't explain or tell you about all the costs for getting a loan. **A good lender will explain the costs and the services you're getting.**
- 4) Things change at the closing. You're not getting the loan you were promised. Walk away. **A good lender will honor their commitments.**
- 5) They want you to borrow more money than you need. **A good lender will let you decide how much money you borrow.**
- 6) They make you feel like you don't have other choices, as if other lenders won't give you a loan. **A good lender will let you know you have options.**
- 7) They give you a quick yes, but it may not be the best loan for you. **A good lender will take time to explore your options with you.**
- 8) You have a feeling some things just not right. Listen to your instincts. **A good lender makes you feel informed and confident.**

**Remember:** If a deal sounds too good to be true, it usually is!

**The DON'T BORROW TROUBLE Minnesota Campaign** The DON'T BORROW TROUBLE Minnesota Campaign is a public education initiative aimed at stopping predatory lending practices in the Twin Cities seven-county metropolitan area. The Campaign seeks to educate families and individuals about how to avoid predatory lending scams and about available community resources.

A coalition of over 60 organizations including Wells Fargo, one of our Mortgage Team Partners, has joined together to create this campaign. If you have questions about purchasing a home, refinancing, debt consolidation, home equity loans, or other home ownership related questions, call their Help Line. They can help answer your questions and put you in touch with housing counselors and nonprofit agencies for further assistance. Call the DON'T BORROW TROUBLE help line at

**612-312-2020**

or visit [www.dontborrowtroublemn.org](http://www.dontborrowtroublemn.org)

Information is power. Don't let others take advantage of you. Even if you have credit problems, there are more choices than you might think or have been led to believe. They will explain home lending in everyday language, answer your questions, and help you explore your options. Keep your home and your future secure. Their advice is free and confidential.

## The Process

**Get pre-approved.** Before you begin searching for a home, we highly recommend you ask our Mortgage Team Partner about having a pre-approval consultation without obligation. By discussing your personal situation with one of our Mortgage Team Partners prior to choosing a home, you can get a pre-approval letter that lets you know how much home you can qualify for. Getting this pre-approval letter is a smart move because it lets you know exactly how much you can spend.

**Complete the Purchase Agreement.** With your loan pre-approved, you now know how much money you can spend on Your New Home and you can now set Your New Home Purchase Budget. Our New Homes Sales Specialist will work with you to complete Your New Home purchase by determining the home plan that best meets your needs and budget, selecting the home site the home is to be built and the personalization options you desire in Your New Home.

Imagine having thousands of design choices at your fingertips, and the opportunity to choose the features and amenities you've always dreamed of for your brand new Bruggeman Home. Your New Home Specialist will guide you through all the possibilities at the Personalization Studio located in our Neighborhood's Sales Center. You will select your favorite flooring, cabinets, appliances, lighting, countertops and so much more. All selections are pre-priced so that you can make informed value decisions as you select these features and amenities within Your New Home Purchase Budget. And you will get a completely finished home to move into on time built just the way you want it.

We will put these decisions into writing in the form of a Purchase Agreement and completion of Your New Home can not start until we have all of these decisions. Our New Home Specialist will be able to quote you a move-in date after the selection process that you can "Plan On".

**Completing the mortgage application.** We will forward your completed Purchase Agreement on to the Mortgage Team Partner you are working with and they will assist you in completing a *Uniform Residential Loan Application* form. Much of the information on your application can be pre-filled from your credit report and Purchase Agreement, so the amount of information you'll need to provide is not overwhelming. Our Mortgage Team Partner can tell you what you'll need to have on hand to complete the application.

There are generally six areas that must be filled in:

- **Personal Data** Full names, home addresses for the previous two years, Social Security numbers and documentation of any recent change in marital status of all borrowers.
- **Income** The amount and source(s) of income for all borrowers including salary, overtime, bonuses, commissions, dividends, interest, retirement and any other source of ongoing income (excluding alimony and child support). Also be prepared to give employment information for the previous two years with employer name, address and phone number.
- **Assets** Information on all assets you'll be using to qualify for the loan, such as checking and savings accounts, stocks and bonds, retirement plans with institutions name, account number and balance. List all other valuable assets such as other real estate owned. What assets will be the source of the down payment and closing costs?

- **Debts and Obligations** Information on all outstanding debts and other financial obligations including creditor names and outstanding balances for all debts including notes payable, 401(k) loans, life insurance loans, stock pledges, alimony, child support, co-sign loans, credit union loans, and other liabilities.
- **Credit References** Information concerning loans or debts that have been paid, plus any other references to good credit use.
- **Property Information** Specifics on the property you wish to buy, if you've chosen one. Bruggeman Homes can coordinate this information with our Mortgage Team Partner

**Your Good Faith Estimate.** Your Mortgage Team Partner will provide you with a written Good Faith Estimate of all the costs that are involved in both securing the mortgage loan and settling on the purchase of Your New Home within three business days after you complete your mortgage loan application. This Good Faith Estimate will include the Mortgage Lender's Fees such as an application fee, origination fee and discount points. The Good Faith Estimate will also include third-party fees collected by your lender for services provided by outside parties, such as an appraiser. Also with the purchase of Your New Home, there will be some necessary charges to cover things like the interest on your loan until your first payment is due, pro-rating property taxes to the date of closing and other similar adjustments to the date of closing that are called "pre-paids" All lenders typically require some of these fees. Many of the services are regulated by various governmental organizations. While it is only an estimate, it can help you budget for your closing. Bruggeman Homes recommends against committing to any loan before seeing the Good Faith Estimate.

A Good Faith Estimate is also helpful because it allows you to compare the real costs of competing mortgage offers. However, it can be tricky to understand, especially if different lenders don't list the same costs in the same way, or if the costs are incomplete or inaccurate. So, it pays to take a close look at your Good Faith Estimate when it arrives. Our Mortgage Team Partners have earned a reputation for providing complete and very accurate estimates of these costs.

**Typical Lender Fees include:**

<b>Application Fee</b>	The amount charged by a mortgage lender to take and process a mortgage loan application.
<b>Loan Origination Fee or Points</b>	The amount charged by a mortgage lender to originate and close a mortgage loan. Origination fees are usually expressed in points.
<b>Discount Points</b>	A "discount point" is a front end cost of the mortgage equivalent to 1% of the loan amount to reduce or "discount" the loan interest rate.
<b>Document Preparation Fee</b>	The amount charged by a mortgage lender to prepare the loan documents.

**Typical Pre-paid costs include:**

<b>Appraisal Fee</b>	Payment for an opinion or estimate of the value of a property. A report is prepared by a professional appraiser to explain the determination of the fair market value. This fee is often paid for at the time of application for a home loan.
<b>Credit Report Fee</b>	Covers the cost of the credit report used to help determine your creditworthiness. These reports are obtained from credit agencies and evaluate your capacity to pay debts or history of paying debts. This fee

is often paid for at the time of application for a home loan.

<b>Mortgage Insurance</b>	Payment for an insurance policy that protects the lender against loss should you fail to make payments. This type of insurance is typically required on loans with less than a 20% down payment. These costs may be paid upfront, included in your monthly payment, or included in your interest rate.
<b>Flood Check Fee</b>	Covers the Federal Emergency Management Agency's (FEMA) review to determine if a home is located in a flood zone and if flood insurance is required.
<b>Closing Fee</b>	Pays for the services of the closing agent that handles all the financial transfers and payments associated with the closing of Your New Home purchase.
<b>Title Insurance (Lender's Policy)</b>	The premium for title insurance, which protects the lender in case of an unresolved claim affecting the marketable title to the property. Special title binders and endorsements may also be included in this charge.
<b>Title Insurance (Owner's Policy)</b>	The premium for title insurance, which protects the owner in case of an unresolved claim affecting the marketable title to the property. Special title binders and endorsements may also be included in this charge.
<b>Home Owners/ Hazard Insurance</b>	The premium for a form of insurance policy required to protect against certain risks, such as fires or storms. A regular payment for this insurance can be included in your monthly home loan payment through an escrow or impound account. The cost of the first year's policy is generally paid at closing. Homes that are part of a Common Interest Community may have the Association provide the Hazard Insurance. Please refer to the Common Interest Community Disclosure Statement for additional information.
<b>State Tax/Fees</b>	The State of Minnesota has taxes and fees related to the real estate transaction. The Mortgage registration tax is imposed by the State of Minnesota for giving a mortgage at approximately 23¢ per \$100 of mortgage amount (24¢ in Hennepin and Ramsey Counties)
<b>Recording Fees</b>	Recording fees are charged by most counties for recording the purchase documents and any liens in the public record and transferring ownership of the property.
<b>Notary Fee</b>	The Notary Fee is included in our Closing Fee.
<b>Survey Fee</b>	A fee for the certification of the location of the property, its dimensions, its boundaries, its contour, and the location and dimensions of any improvements. In some cases, the lender can use the original survey done for the purchase of the property.

**Typical pre-paid costs include**

<b>Pre-paid Interest</b>	When you buy a home, you typically don't make the first payment until the beginning of the second full month after your loan closes. For example, if you close on January 28, your first payment may not be due until March 1. However, you pay at closing for the interest on your new loan from the day of closing until February 1. The Good Faith
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Estimate will assume the number of days interest required and we have seen this estimate range from 1 day to 15 days. Do not select your lender based on this cost because 1 day costs less than 15 days. The actual number of days charge at closing will be calculated from the date of closing.

- Escrow Accounts** Escrow accounts (also called reserves) are required if your lender will be paying your home owner's insurance and property taxes. Your lender sets up the escrow account by collecting 2 to 4 months worth of the annual cost of your home owner's insurance and 2 to 4 months worth of your yearly property taxes and any other items covered by your escrow account. At closing, you'll be required to pay these amounts to fund the account.
- Property Taxes** Property taxes for real estate must be paid semi-annually to the local government. Property taxes are the most common expense prorated (shared or split) between the buyer and seller. Your closing agent will typically determine your portion of the taxes from the date of closing.
- Association Fees** If Your New Home is in a Common Interest Community, a Working Capital Contribution and prorating the paid Association Assessment for the month of closing may be required. Please refer the Common Interest Community Disclosure Statement for additional information.

**Getting your loan approval** After you've completed the application, our Mortgage Team Partner will need to verify the information you provided and return a decision on your application. This means our Mortgage Team Partner will review your credit report and other financial information to make an *underwriting* decision regarding the degree of risk involved in lending you money. If there are any initial questions about your approval decision, the loan application is forwarded to a trained underwriting expert for a full review. Our Mortgage Team Partner will work with you to offer, if possible, a loan program or loan terms that accommodate your circumstances and meet your individual needs. Based on the information from your credit report, you may need to provide additional documents or letters that:

- Verify the income you'll use for loan qualification
- Confirm your down payment and closing expenses in your bank account
- Clarify any incorrect items on your credit report
- Verify any debts not listed on your credit report

## What Happens Next?

**Construction of Your New Home.** Waiting for your dream home to be complete is hard! But Bruggeman Homes will not cut corners or compromise quality in order to speed up the process. Because you are selecting from our thousands of design choices, we can eliminate the delays normally associated with unique custom features.

At Bruggeman Homes, it's our style to make your home building experience seamless and worry free from start to finish. Well known for our highly organized scheduling and close monitoring of every step of the building process, we take enormous pride in delivering complete homes on time. With no detail too small to consider, we make sure Your New Home is built right and on time.

Remember that prior to closing, Bruggeman Homes holds the title to the home and we are very limited by our liability insurance requirements regarding your access to home. Your access is limited to Business hours with our escort. Our insurance policies prohibit any work to be done by any individuals not covered by a submitted and approved Workers Compensation Insurance Policy and General Liability Insurance Policy and this prohibition includes our future home owners, their friends, relatives and associates.

Based on the construction schedule, you will work out a strategy with your mortgage lender on the appropriate time to lock your loan's interest rate. Make sure the lock period allows enough time for your loan to be processed and construction to be completed. If your lock period expires before you're ready to take ownership of the house, your loan pricing may be adjusted to reflect current market conditions.

**Your New Home Owner Orientation.** We will schedule a Home Owner Orientation Tour of Your New Home approximately 7 days prior to your closing. In that tour, we will show you the features and give you the opportunity to verify the construction of Your New Home. You will also be given an opportunity to visit your home prior to your closing to verify all construction is complete.

**Closing the Purchase.** If you're looking for a day to celebrate buying Your New Home, circle this one on your calendar.

Prior to the closing, the title company will review with you a copy of the *HUD-1 Settlement Statement*. This document will provide the final total for your closing costs as instructed from your mortgage lender and Bruggeman Homes. It establishes the total funds you must bring to closing. You'll need to obtain a certified or cashier's check for this amount. Personal checks are not accepted.

Please take time to review the charges shown on the *HUD-1 Settlement Statement* compared to the Truth in Lending Estimate given to you when you applied for your mortgage. One common discrepancy between the *HUD-1 Settlement Statement* and the Good Faith Estimate is the estimated day of the month the loan will close and the interest charged for that portion of the month. If the estimated closing date on the Good Faith Estimate is the last day of the month, only one day of interest will be shown on the Good Faith Estimate. If the actual closing is 5 days before the end of the month, the *HUD-1 Settlement Statement* will include 5 days of interest causing a discrepancy with the Good Faith Estimate on the interest being charged. The actual closing date governs and the interest charged is pro-rated on a daily basis.

The actual closing is the meeting at the title company where you will sign the paperwork and pay all expenses to take official ownership of Your New Home. Many of the people involved with the purchase of Your New Home will attend your loan closing. This includes you, Bruggeman Homes, your real estate agents if you had one, and, of course, the closing agent. The meeting usually takes about 1 hour and is held at the closing agent's office. The closing agent's responsibilities include:

- Comply with lender's instructions for executing the mortgage loan documents.
- Prepare final closing statements for buyers and sellers.
- Receive buyer's funds.
- Prepare documents required to close the transaction.
- Disburse monies and documents to the appropriate parties.
- Issue the title insurance policies, if any, as purchased by the Buyer.
- Records documents with county recorder or registrar.

We will go through the following steps during the closing:

- The Closing agent will review the *HUD-1 Settlement Statement* with you. Both you and Bruggeman Homes will sign the settlement sheet.
- Since it's possible that the annual percentage rate (APR) calculated at your loan application will change a little before closing, your lender is required to give you the final version of your Truth in Lending disclosure prior to executing the loan documents.
- Your mortgage lender will ask you to confirm that there are no material changes that would negatively affect your mortgage loan approval.
- Your signatures are collected for loan documents, such as the mortgage, note, final loan application and Truth-in-Lending statement. You will need to provide a government issued photo identification card at closing such as a Driver's License.
- Evidence of required insurance is collected.
- If your monthly payments are to include property taxes and insurance, a new escrow account (or reserve) is established.
- If Your New Home is located in common interest community that requires a Working Capital Contribution to the Association at closing, the contribution is collected for the Association. A personal check is acceptable for Working Capital payment.
- If everyone agrees papers are in order, you submit a certified or cashier's check to cover your down payment and closing costs.
- Lender funds the home loan amount to the closing agent.
- **You receive the keys to Your New Home.**

A few of the key closing documents you will receive at closing:

- **HUD-1 Settlement Sheet** A copy of the signed HUD-1 Settlement Sheet itemizing the services provided and the charges to the buyer and the seller.
- **Truth-in-Lending (TIL) Disclosure** Since it's possible that the annual percentage rate (APR) calculated at your loan application will change a little before closing, your lender is required to give you the final version of your TIL disclosure at or prior to the closing meeting.
- **Mortgage** Documents conveying a lien in your property as security for repayment of your home loan. (If you default on your loan, your lender has the right to foreclose your ownership interest and take possession of the property.)
- **The Note** The mortgage (or promissory) note is a legal "IOU." The note represents your promise to pay the lender according to the agreed terms, including the dates on which your home loan payments must be made and the location to which payment must be sent.
- **Homesteading Instructions** The State of Minnesota offers Property Tax reductions to owner-occupied homes under a process commonly call "Homesteading". In order for you to receive this property tax reduction, you must certify in person at the County of your home ownership and residency. You will be given Homesteading instructions at closing.

# ***Congratulations!!!***

## **You are a New Home Owner.**

# Glossary

**abstract of title** A historical summary provided by a title insurance company of all records affecting the title to a property to allow the Buyer to determine if the seller has marketable title. See also: **marketable title**.

**abstract property** Abstract property is subject to the public record of all documents effecting the property since the original patent deed issued by the government in the mid-19th century. Through statutes, court cases, rules and general practice, the person doing the Title Opinion reviews the abstract listing all documents that affect the property and determines the ownership of the property, and identifies all liens and encumbrances. In lieu of a title opinion, a title insurance company will review the history and issue a commitment for a title insurance policy subject to the encumbrances and defects listed. See **title insurance commitment**.

**acceleration clause** Allows a lender to declare the entire outstanding balance of a loan immediately due and payable should a borrower violate specific loan provisions or default on the loan.

**Adjustable-Rate Mortgage (ARM)** A loan with an interest rate that changes with market conditions on pre-determined dates.

**amenities** Features of your home that fit your preferences and can increase the value of your property. Some examples include the number of bedrooms, bathrooms, or vicinity to public transportation.

**amortization** The liquidation of a debt by regular, usually monthly, installments of principal and interest. An amortization schedule is a table showing the payment amount, interest, principal and unpaid balance for the entire term of the loan.

**annual cap** See: **cap**.

**Annual Percentage Rate (APR)** – A term used to represent the percentage relationship of the total finance charge to the amount of the loan, over the term of the loan. Do not confuse the APR with your quoted interest rate, which is used to determine your monthly principal and interest payment. The APR reflects the cost of your mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes (in addition to the interest rate) loan discount points, fees and mortgage insurance. See Note.

**appreciation** A property's increase in value due to inflation or economic factors.

**appraisal** A report written by a qualified expert that states an opinion on the value of a property based on its characteristics and the selling prices of similar properties or comparable properties in the area.

**A.P.R.** See: **annual percentage rate**.

**ARM** See: **adjustable rate mortgage**.

**assessment** Charges levied against a property for tax purposes or to pay for municipality or association improvements such as curbs, sewers, or grounds maintenance.

**assignment** The transfer of a contract or a right to buy property at given rates and terms from a mortgagee to another person.

**assumption** An agreement between a buyer and a seller, requiring lender approval, where the buyer takes over the payments for a mortgage and accepts the liability. Assuming a loan can be advantageous for a buyer because there are no closing costs and the loan's interest rate may be lower than current market rates. Depending on what is in the mortgage or deed of trust, the lender may raise the interest rate, require the buyer to qualify for the mortgage, or not permit the buyer to assume the loan at all.

**automated underwriting** A computerized method of reviewing home mortgage applications for loan approval.

**balloon mortgage** Mortgage with a final lump sum payment that is greater than preceding payments and pays the loan in full.

**biweekly mortgage** A loan requiring payments of principal and interest at two-week intervals. This type of loan amortizes much faster than monthly payment loans. The payment for a biweekly mortgage is half what a monthly payment would be.

**bridge loan** A loan which enables home buyers to get financing to make a down payment and pay closing costs on a new home before selling the home they currently own.

**broker** An intermediary between the borrower and the lender. The broker may represent several lending sources and charges a fee or commission for services.

**buy-down** Where the buyer pays additional discount points or makes a substantial down payment in return for a below market interest rate; or the seller offers 3-2-1 interest payment plans or pays closing costs such as the origination fee. During times of high interest rates, buy-downs may induce buyers to purchase property they may not otherwise have purchased.

**cap** A limit in how much an adjustable rate mortgage's monthly payment or interest rate can increase. A cap is meant to protect the borrower from large increases and may be a payment cap, an interest cap, a life-of-loan cap or an annual cap.  
 A **payment cap** is a limit on the monthly payment.  
 An **interest cap** is a limit on the amount of the interest rate.  
 A **life-of-loan cap** restricts the amount the interest rate can increase over the entire term of the loan.  
 An **annual cap** limits the amount the interest rate can increase over a twelve-month period.

**certificate of reasonable value** A form describing details about the property and the financial transaction governed by the Minnesota's Department of Revenue. The data submitted is made available to property tax assessors.

**closed-end mortgage** A mortgage principal amount that is fixed and cannot be increased during the life of the loan. See also: *open-end mortgage*.

**closing** The final step to complete the purchase. The home buyer, lender and Seller sign the settlement documents which state the terms of the transaction at the closing agent's office.

**closing agent** A title insurance company representative who oversees the closing and witnesses the signing of the closing documents.

**closing costs** – The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the lender's fees, third party costs and pre-pays. See also: *third party costs* and *pre-pays*

**cloud** A claim to the title of a property that, if valid, would prevent a Buyer from obtaining a clear title.

**collateral** Something of value pledged as security for a loan. In mortgage lending, the property itself serves as collateral for a mortgage loan. .

**commitment fee** A fee charged when an agreement is reached between a lender and a borrower for a loan at a specific rate and points and the lender guarantees to lock in that rate.

**commitment for title insurance** See *title insurance commitment*

**commitment letter** A binding, written pledge, by the lender to a mortgage applicant, to make a loan, usually under certain stated conditions.

**common interest community** "Common Interest Community" or "CIC" means real estate within Minnesota that is subject to an instrument which obligates persons owning a separately described parcel of the real estate by reason of their ownership to pay for (i) real estate taxes levied against; (ii) insurance premiums payable with respect to; (iii) maintenance of; or (iv) construction, maintenance, repair or replacement of improvements located on, one or more parcels or parts of the real estate other than the parcel or part that the person owns or occupies.

**co-mortgagor** One who is individually and jointly obligated to repay a mortgage loan and shares ownership of the property with one or more borrowers. See also: *co-signer*.

**condominium** An individually owned unit within a common interest community in which portions of the real estate are designated as units and the remainder of the real estate is designated for common ownership vested in the unit owners. Common areas may include the grounds, the parking facilities and the tennis courts. See also: *common interest community*

**conforming loan** A loan that conforms to Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines. See also: *non-conforming loan*.

**construction loan** A short-term loan financing improvements to real estate, such as the building of a new home. The lender advances funds to the borrower as needed while construction progresses. Upon completion of the construction, the borrower must obtain permanent financing or pay the construction loan in full.

**consumer handbook on adjustable rate mortgages (C.H.A.R.M.)** A disclosure required by the federal government to be given to any borrower applying for an adjustable rate mortgage (ARM).

**conventional loan** – A mortgage that is not insured or guaranteed by a government agency such as FHA, VA or Farmers Home Administration.

**convertible mortgage** An adjustable rate mortgage (ARM) that allows a borrower to switch to a fixed-rate mortgage at a specified point in the loan term.

**cooperative** A cooperative is a common interest community in which the real estate is owned by an association, each of whose members is entitled by virtue of the member's ownership interest in the association to a proprietary lease. See also: **common interest community**

**co-signer** One who is obligated to repay a mortgage loan should the borrower default but who does not share ownership in the property. See also: **co-mortgagor**.

**covenants** Rules and restrictions governing the use of property.

**credit report** A report issued by an independent agency which contains certain information concerning a mortgage applicant's credit history and current credit standing.

**CRV** See: **certificate of reasonable value**.

**curtailments** The borrower's privilege to make payments on a loan's principal before they are due. Paying off a mortgage before it is due may incur a penalty if so specified in the mortgage's prepayment clause.

**debt** Money owed to repay someone.

**debt-to-income ratio** A formula lenders use to determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

**deed restriction** Deed restrictions are usually imposed on a buyer of land when the property is sold and the restrictions are included in the seller's deed to the buyer. Restrictions are generally imposed by a property developer to maintain certain standards. Restrictions may include limits on the color an owner may paint a building, what trees one may plant, or the size of structures to be built on the property. Deed restrictions may also be known as covenants or conditions.

**Department of Housing and Urban Development (HUD)** The U.S. government agency that administers FHA, GNMA and other housing programs.

**discount points** Amounts paid to the lender based on the loan amount to buy the interest rate down. Each point is one percent of the loan amount; for example, two points on a \$100,000 mortgage is \$2,000.

**down payment** A portion of the sales price paid to the seller by the home buyer to close the sales transaction. Also, the difference between the sales price and the home mortgage amount.

**equity** Your ownership interest, or that portion of the value of the property that exceeds the current amount of your home loan. For example, if the property is worth \$100,000 and the loan is for \$75,000, then you have \$25,000, or 25%, equity in your home.

**due-on-sale** A clause in a mortgage or deed of trust allowing a lender to require immediate payment of the balance of the loan if the property is sold (subject to the terms of the security instrument).

**duplex** Dwelling divided into two units.

**earnest money** Deposit in the form of cash or a note, given to a seller by a buyer as good faith assurance that the buyer intends to go through with the purchase of a property.

**easement** An easement is the right to use another person's land for a particular purpose. There are many forms of easements. Public utility companies frequently have utility easements that permit them to run gas, water, or electrical lines through particular property they do not own. The City frequently has a drainage and utility easement over a home owner's lot.

**encumbrance** An encumbrance is an obligation attached to a piece of real property. It is a right or interest held by a party who is not the owner of the property. An encumbrance is not an ownership interest in real property, and the property may be bought and sold even though there are encumbrances attached to the property. Because encumbrances attach to property, not the property owners, a person who buys property with an encumbrance is bound by the encumbrance. Easements and deed restrictions are examples of encumbrances.

**Equal Credit Opportunity Act** A federal law prohibiting lenders and other creditors from discrimination based on race, color, sex, religion, national origin, age, marital status, receipt of public assistance or because an applicant has exercised his or her rights under the Consumer Credit Protection Act.

**equity** The value of a property beyond any liens against it. Also referred to as owner's interest.

**escape clause** A provision allowing one party or more to cancel all or part of the contract if certain events fail to happen, such as the ability of the buyer to obtain financing within a specified period.

**escrow** Money placed with a third party for safekeeping either for final closing on a property or for payment of taxes and insurance throughout the year.

**escrow account** – A holding account for the amount a mortgage borrower pays each month and which the lender uses to pay for the borrower's taxes, other periodic debts against the property, home owner's insurance and, if applicable, mortgage insurance.

**fair market value** The price a property can realistically sell for, based upon comparable selling prices of other properties in the same area.

**Fannie Mae** Nickname for Federal National Mortgage Association (FNMA).

**Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)** A quasi-governmental, federally-sponsored organization that acts as a secondary market investor to buy and sell mortgage loans. FHLMC sets many of the guidelines for conventional mortgage loans, as does FNMA.

**Federal Housing Administration (FHA)** An agency within the Department of Housing and Urban Development that sets standards for underwriting and insures residential mortgage loans made by private lenders. One of FHA's objectives is to ensure affordable mortgages to those with low or moderate income. FHA loans may be high loan-to-value, and they are limited by loan amount. FHA mortgage insurance requires a fee of 1.5 percent of the loan amount to be paid at closing, as well as an annual fee of 0.5 percent of the loan amount added to each monthly payment.

**Federal National Mortgage Association (FNMA or Fannie Mae)** A private corporation that acts as a secondary market investor to buy and sell mortgage loans. FNMA sets many of the guidelines for conventional mortgage loans, as does FHLMC. The major purpose of this organization is to make mortgage money more affordable and more available.

**fee simple** The maximum form of ownership, with the right to occupy a property and sell it to a buyer at any time. Upon the death of the owner, the property goes to the owner's designated heirs. Also known as fee absolute.

**FHA** See: **Federal Housing Administration**.

**fifteen-year mortgage** A loan with a term of 15 years. Although the monthly payment on a 15-year mortgage is higher than that of a 30-year mortgage, the amount of interest paid over the life of the loan is substantially less.

**fixed-rate mortgage** A loan with an interest rate that remains the same for the entire repayment term.

**FICO Score** A numerical rating developed and maintained by Fair Isaac and Company that indicates a borrower's creditworthiness based on a number of criteria.

**float the rate** This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the interest rate to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

**flood insurance** The Federal Flood Disaster Protection Act of 1973 requires that federally-regulated lenders determine if real estate to be used to secure a loan is located in a Specially Flood Hazard Area (SFHA). If the property is located in a SFHA area, the borrower must obtain and maintain flood insurance on the property. Most insurance agents can assist in obtaining flood insurance.

**FNMA** See: **Federal National Mortgage Association**

**Freddie Mac** Nickname for **Federal Home Loan Mortgage Corporation** (FHLMC).

**front-end ratio** Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

**funding fee** The amount charged on VA mortgages to cover administrative costs.

**general warranty deed** Title in Minnesota is typically transferred by a general warranty deed. A general warranty deed provides the greatest protection to the Buyer because the seller pledges or warrants that he or she legally owns the property and that there are no outstanding liens, mortgages, or other encumbrances against it. A warranty deed is also a guaranty of title, which means that the seller may be held liable for damages if the buyer discovers that the title is defective. A warranty deed is no substitute for title insurance, however, as a warranty from a seller who later dies or goes bankrupt may have little, if any, value. See also: **commitment for title insurance**.

**gift** This includes amounts from a relative or a grant from the borrower's employer, a municipality, non-profit religious organization, or non-profit community organization that does not have to be repaid.

**Ginnie Mae** Nickname for **Government National Mortgage Association** (GNMA).

**Good Faith Estimate** A document that tells mortgage borrowers the approximate costs they will pay at or before closing, based on common practice in the locality.

**government loan** A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration or a state bond program. The loans are generally made by private lenders, such as Our Mortgage Team Partners.

**Government National Mortgage Association (GNMA or Ginnie Mae)** A government organization that participates in the secondary market, securitizing pools of FHA, VA, and RHS loans.

**graduated payment mortgage (GPM)** A fixed-interest loan with lower payments in the early years than the later years. The amount of the payment gradually increases over a period of time and then levels off at a payment sufficient to pay off the loan over the remaining amortization period.

**hazard insurance** See *home owner's insurance*

**home equity loan** A mortgage on the borrower's principal residence, usually for the purpose of making home improvements or debt consolidation. .

**home owner's insurance (also called Hazard Insurance)** A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home. Mortgage lenders often require a borrower to maintain an amount of hazard insurance on the property that is equal at least to the amount of the mortgage loan.

**home owner orientation** A tour of Your New Home where the features are demonstrated and the construction is verified prior to closing on the purchase

**Housing and Urban Development. (HUD)** The U.S. government agency that administers FHA, GNMA and other housing programs.

**housing affordability index** Indicates what proportion of home buyers can afford to buy an average-priced home in specified areas. The most well known housing affordability index is published by the National Association of Realtors.

**housing expenses-to-income ratio** See: *debt-to-income ratio*.

**HUD** See: *Housing and Urban Development*.

**HUD-1 Settlement Statement** – A standard form used to disclose and itemizes the costs the buyer and the seller will pay at closing.

**income-to-debt ratio** See: *debt-to-income ratio*.

**index** A published interest rate compiled from other indicators such as U.S. Treasury bills or the monthly average interest rate on loans closed by savings and loan organizations. Mortgage lenders use the index figure to establish rates on adjustable rate mortgages (ARMs).

**insurance** As a part of PITI, the amount of the monthly mortgage payment that does not include the principal, interest, and taxes. Also see: *home owners insurance*.

**interest** The amount of the entire mortgage loan which does not include the principal. Also, as a part of PITI, the amount of the monthly mortgage payment which does not include the principal, taxes, and insurance.

**interest cap** See: *cap*.

**interest rate** A percentage of the mortgage amount that is paid to the lender for the use of the money, usually expressed as an annual percentage.

**interim interest** The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

**joint tenancy** See: *tenancy*.

**jumbo loan** A nonconforming loan that is larger than the limits set by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines.

**key lot** Real estate deemed highly valuable because of its location.

**lender's title insurance policy** A title insurance policy issued by a title insurance company insuring mortgage lender against any errors in the title search. A Lender's Title Policy is usually required by the mortgage lender and the cost of title insurance policy is paid for by the buyer. See also: *title insurance policy*.

**lien** A claim against a property for the payment of a debt. A mortgage is a lien; other types of liens a property might have include a tax lien for overdue taxes or a mechanics lien for unpaid debt to a subcontractor.

**life-of-loan cap** See: *cap*.

**liquidity** The capability of an asset to be readily converted into cash.

**loan conditions** These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement and any requirements the borrower must meet prior to closing.

**loan origination fee** See: *origination fee*.

**loan payment reserves** A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

**loan servicing** The responsibility of collecting monthly mortgage payments and properly crediting them to the principal, taxes and insurance, as well as keeping the borrower informed of any changes in the status of the loan.

**loan-to-value (LTV)** The ratio of the amount borrowed to the appraised value or sales price of real property expressed as a percentage.

**lock-in** The guarantee of a specific interest rate and/or points for a specific period of time. Some lenders will charge a fee for locking in an interest rate.

**maintenance costs** The cost of the upkeep of the house. These costs may be minor in cost and nature (replacing washers in the faucets) or major in cost and nature (new heating system or a new roof) and can apply to either the interior or exterior of the house.

**margin** The amount a lender adds to the index of an adjustable rate mortgage to establish an adjusted interest rate. For example, a margin of 1.50 added to a 7 percent index establishes an adjusted interest rate of 8.50 percent.

**market value** The price a property can realistically sell for, based upon comparable selling prices of other properties in the same area.

**marketable title** A marketable title is one that can be transferred to a new owner without the likelihood that claims will be made on it by another party. The concept is crucial in all real estate transactions because buyers generally expect to receive property to which no one else can lay claim and they do not expect that their ownership will later be challenged. Marketable title is always subject to

- building and zoning laws, ordinances, state and federal regulations,
- reservations by the State of Minnesota of minerals and mineral rights,
- Minnesota Common Interest Community Act as amended and the recorded declaration if the property has been subjected to the Act,
- the recorded plat,
- all easements, restrictions and reservations of record,
- development contracts of record, if any
- the liens of purchase money mortgage and interim construction mortgages subject to the partial release provided at or before closing releasing this property from the purchase money mortgage and interim construction mortgages
- the lien of any financing mortgage obtained by the Buyer in connection with the purchase
- any other lien, defect or encumbrance placed on the title by the Buyer

See also: **title insurance commitment**

**modification** A change in the terms of the mortgage note, such as a reduction in the interest rate or change in maturity date.

**mortgage** A legal instrument in which property serves as security for the repayment of a loan.

**mortgage broker** An intermediary between a borrower and a lender. A broker's expertise is to help borrowers find financing that they might not otherwise find themselves.

**mortgage insurance** Money paid to insure the lender against loss due to foreclosure or loan default. Mortgage insurance is required on conventional loans with less than a 20 percent down payment. FHA mortgage insurance requires a payment of 1.5 percent of the loan amount to be paid at closing, as well as an annual fee of 0.5 percent of the loan amount added to each monthly payment.

**mortgage interest** The interest rate charge for borrowing the money for the mortgage. It is used to calculate the interest payment on the mortgage each month.

**mortgage term** The length of time that a mortgage is scheduled to exist. Example: a 30-year mortgage term is for 30 years.

**mortgagee** The lender.

**mortgagor** The borrower.

**negative amortization** A situation in which a borrower is paying less interest than what is actually being charged for a mortgage loan. The unpaid interest is added to the loan's principal. The borrower may end up owing more than the original amount of the mortgage.

**non-assumption clause** In a mortgage contract, a statement that prohibits a new buyer from assuming a mortgage loan without the approval of the lender.

**non-conforming loan** A mortgage program that offers approval guidelines which are not industry standards. It may, for example, have different loan limits than conforming loans, but may offer financing in conforming and jumbo amounts.

**non-prime loan** A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

**note** The agreement which states the home mortgage amount to be borrowed and the terms and conditions of the loan. It also includes a complete description of how the loan should be repaid and the time frame for the repayment.

**open-end mortgage** A mortgage allowing the borrower to receive advances of principal from the lender during the life of the loan. See also: **closed-end mortgage**.

**origination fee** The amount charged by a lender to originate and close a mortgage loan. Origination fees are usually expressed in points.

**owner's title insurance policy** A title insurance policy issued by a title insurance company insuring either the owner against any errors in the title search. The cost of the Owner's Title Policy is typically paid for by the Buyer. See also: **title insurance policy**.

**payment cap** See: **cap**.

**P&I** Abbreviation for principal and interest.

**PITI** Abbreviation for principal, interest, taxes and insurance.

**planned community** Planned community means a common interest community that is not a condominium or a cooperative. A condominium or cooperative may be a part of a planned community. See also **common interest community**

**plat** A map or chart of a lot, subdivision or community drawn by a surveyor showing boundary lines, buildings, improvements on the land, and easements recorded at the county.

**points** Charges levied by the lender based on the loan amount. Each point equals one percent of the loan amount; for example, two points on a \$100,000 mortgage is \$2,000. Discount points are used to buy down the interest rate. Points can also include a loan origination fee, which is usually one point.

**pre-approval** A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.

**pre-paids** That portion of your closing costs which must be collected at closing to cover taxes, interest and insurance.

**prime rate** The interest rate commercial banks charge their most creditworthy customers.

**principal** The amount of a loan, excluding interest; or the remaining balance of a loan, excluding interest.

**private mortgage insurance (PMI)** A mortgage insurance policy on a conventional mortgage loan issued by a private insurance company.

**processing** The completion of a mortgage loan application and supporting documents.

**property appraisal** See: **appraisal**.

**property tax** The amount which the state and/or locality assesses as a tax on a piece of property.

**prorate** To proportionally divide amounts owed by the buyer and the seller at closing.

**purchase agreement** The Purchase Agreement is the contract for the sale of real estate and is the blueprint for the entire transaction. When signed by both the buyer and the seller, the Purchase Agreement is a legal, binding contract. Both the seller and the buyer are legally obligated to act in the manner outlined in the Purchase Agreement from the time it is signed until the closing and sometimes even after the closing.

**qualification** As determined by a lender, the ability of the borrower to repay a mortgage loan based on the borrower's credit history, employment history, assets, debts and income.

**quitclaim deed** A quitclaim deed is a deed that relinquishes to the buyer whatever interest, if any, the seller may have in the property. A quitclaim deed gives the buyer the least protection of any deed. If the seller is the sole owner of the property, the quitclaim deed is enough to transfer title, but the buyer takes a risk by accepting a quitclaim deed because it offers the buyer no guarantee that the title is valid. Quitclaim deeds are used frequently during the property settlement phase of a marriage dissolution

**rate cap** See: **cap**.

**rate lock** The borrower and the lender agree to protect the interest rate, points and term of the loan while it is processed.

**registered property** See **torrens property**

**RESPA** Abbreviation for the **Real Estate Settlement Procedures Act**, which allows consumers to review settlement costs at application and once again prior to closing.

**reverse annuity mortgage** A type of mortgage loan in which the lender makes periodic payments to the borrower. The borrower's equity in the home is used as security for the loan. Commonly referred to as a Reverse Mortgage.

**RHCDS** Rural Housing and Community Service

**right of first refusal** Purchasing a property under conditions and terms made by another buyer and accepted by the seller.

**right of rescission** When a borrower's principal dwelling is going to secure a loan, the borrower has three business days following signing of the loan documents to rescind or cancel the transaction. Any and all money paid by the borrower must be refunded upon rescission. The right to rescind does not apply to loans to purchase real estate or to refinance a loan under the same terms and conditions where no additional funds will be added to the existing loan.

**rollover** At the end of the construction loan period, the borrower's file is delivered to Bank One Mortgage Loan Servicing Dept. Prior to delivery, CLD contacts the borrower and obtains funds for the tax and insurance escrows, a final title policy and home owner's policy. This process is called a rollover.

**Rural Housing and Community Development Service** A federal agency that administers mortgage loans for buyers in rural areas.

**second mortgage** A loan that is junior to a primary or first mortgage and often has a higher interest rate and a shorter term.

**secondary market** A market comprising investors like GNMA, FHLMC and FNMA, which buy large numbers of mortgages from the primary lenders and sell them to other investors.

**servicing** See *loan servicing*.

**settlement** – The conclusion of the purchase and mortgage transaction at the closing agent's office where the loan documents are executed, necessary funds disbursed and title to the property is transferred.

**settlement costs** See: *closing costs*.

**survey** A physical measurement of property done by a registered professional showing the dimensions and location of any buildings as well as easements, rights of way, roads, etc.

**tax deed** A written document conveying title to property repossessed by the government due to default on tax payments.

**tax savings** The amount of money that the home owner is not required to pay the government in taxes because he or she owns a home.

**taxes** As a part of PITI, the amount of the monthly mortgage payment which does not include the principal, interest, and insurance.

**tenancy** Tenancy describes the manner in which title is transferred which affects the rights of the owners.

- **joint tenancy** is a form of co-ownership. Although usually thought of as a way for a husband and wife to own property, there is no requirement that joint tenants be married to one another or that there be only two joint tenants. Each individual owner in joint tenancy has a right to sell, encumber, and possess the entire property. Regardless of the number of joint tenants, when one joint tenant dies, the remaining joint tenants automatically take the deceased joint tenant's share of the property by right of survivorship. A principal advantage of joint tenancy is that it allows the surviving joint tenant to avoid probate and death taxes.
- **tenancy by the entirety** - ownership of property only between husband and wife in which neither can sell without the consent of the other and the property is owned by the survivor in the event of death of either party.
- **tenancy in common** is a form of co-ownership. Tenants in common, like joint tenants, share the right to possess, sell, and encumber the property. Unlike joint tenants, tenants in common do not have a right of survivorship. Upon the death of one tenant in common, his or her ownership interest passes to his or her heirs as part of the estate.
- **tenancy in severalty** - ownership of property by one legal entity or a sole party.
- **tenancy at will** - a license to use or occupy a property at the will of the owner.

**third party costs** That portion of your closing costs which must be collected at closing to cover the appraisal, credit report, mortgage insurance, title insurance, hazard insurance, state taxes and fees, recording fees.

**title** A formal document establishing ownership of property.

**title opinion** A title opinion is a letter opinion prepared by an attorney giving the lawyer's opinion concerning ownership of a parcel of real estate and liens that may encumber it. From that opinion,

- a buyer or lender make decisions about marketable title and whether steps need to be taken prior to closing or at closing to resolve title defects or satisfy liens as part of the transaction. A title opinion is often given with limitations and conditions concerning the extent to which the opinion may be relied upon in the transaction and there is very little recourse against the attorney for errors or omissions. See also *marketable title* and *title insurance commitment*.
- title insurance commitment*** A commitment by a title insurance company to issue a title insurance policy subject to the conditions set forth in the commitment allowing determination of marketable title. A title insurance commitment to issue a title policy does not issue the policy. The Buyer must purchase a Lender's Title Policy to provide title insurance to the mortgage lender and the Buyer must purchase an Owner's Title Policy to provide title insurance to the Buyer. See also: *title insurance policy, lender's title insurance policy* and *owner's title insurance policy*.
- title insurance policy*** A policy issued by a title insurance company insuring either the lender or the owner against any errors in the title search. Title insurance offers the advantage over a title opinion by an express contract in favor of the insured that the title insurance company accepts the financial responsibility to protect the insured party from claims that may be asserted against the title to the property. Title insurance also gives the insured coverage for the payment of legal costs if the title insurer has to defend title against a covered claim. The Buyer must purchase a Lender's Title Policy to provide title insurance to the mortgage lender and the Buyer must purchase an Owner's Title Policy to provide title insurance to the Buyer. See also: *lender's title insurance policy* and *owner's title insurance policy*.
- torrens property*** With Torrens Property in Minnesota, the owner has a Certificate of Title which lists his/her name and the current encumbrances. An owner is assured that no one else has any claim to the property. All that a potential buyer needs to do is look at the Certificate of Title to determine the owner, and the listed Memorials for the liens or encumbrances. A Torrens Title is much like the title to an automobile. Placing any encumbrance on the property requires the delivery of the Certificate of Title.
- Truth-in-Lending Statement*** Required by federal regulations, this statement tells Buyers the costs of financing their loan expressed as the annual percentage rate (APR). Do not confuse the APR with your interest rate, which is used to determine your monthly principal and interest payment.
- underwriter*** A professional who approves or denies a loan to a potential home buyer based on the home buyer's credit history, employment history, assets, debts and other factors such as loan guidelines.
- underwriting*** The process by which an underwriter reviews the application, documentation and property prior to rendering a loan decision.
- Uniform Settlement Statement*** A standard document prescribed by the Real Estate Settlement Procedures Act containing information for closing which must be supplied to both buyer and seller.
- utility costs*** Periodic housing costs for water, electricity, natural gas, heating oil, etc.
- VA loan*** See: *Veterans Administration*.
- variable rate mortgage (VRM)*** See: *adjustable rate mortgage*.
- Veterans Administration (VA)*** The federal agency responsible for the VA loan guarantee program as well as other services for eligible veterans. In general, qualified veterans can apply for home loans with no down payment and a funding fee of 1 percent of the loan amount.
- walk-through*** See *home owner orientation*.
- warranty deed*** See *general warranty deed*.
- yield*** The rate of earnings from an investment.
- zoning*** The ability of local governments to specify the use of private property in order to control development within designated areas of land. For example, some areas of a neighborhood may be designated only for residential use and others for commercial use such as stores, gas stations, etc.