

First-Time

Homebuyer Guide



loanDepot[®]

NMLS#174457

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SECTION 1:

Preparing to Buy a Home



1. Get a clear financial picture

One of the best ways to tackle a long-term savings goal is to get a very clear picture of your current income and expenses. If you find yourself spending a disproportionate amount of your finances on non-essentials like eating out or monthly subscription services, take a minute to identify excesses and adjust where necessary. These questions may help you root out needless spending:

- What are your top three spending categories? Can you cut back in any of these categories?
- How much do you need each month to cover your non-cancelable debts?
- Do you pay monthly subscription fees you can consolidate? For example, do you have both Netflix and Hulu? Do you and your partner have duplicate accounts?



2. Set up a tracking mechanism

There are a variety of apps you can download to help you manage your finances. In fact, most lenders have these features within their app or website. Another simple, yet effective way to track expenses is to set up automatic payments on all your accounts. Auto payment on credit cards will ensure you never miss a payment while keeping your credit score up!

3. Determine financial needs

While it's best to strive towards 20 percent down, don't let that prevent you from becoming a homeowner. If home prices are on the rise, you may be better off putting down a smaller down payment but see your home's value grow substantially more than the benefit of waiting several years to collect a larger down payment. loanDepot offers home financing with as little as 3.5 percent down.

4. Open a savings account

What's better than watching your money grow without lifting a finger? Opening a designated savings account is one of the best ways to ensure you're not tempted to spend the funds you need for a down payment. Be sure to choose one that's high-yielding and beats inflation rate. If your employer uses direct deposit, you can easily set up auto-deposits each pay period from your checking account.

5. Consolidate debt

The main goal of consolidating debt is to eliminate excessive interest that will hinder you from contributing to a house saving fund. For high-interest debts like credit cards or student loans, consolidation might be one of the best approaches to streamline payments at a more affordable interest rate. For credit cards, search for deals that offer 0% APR on balances and new purchases. The key is to make sure you can pay down the debt in its entirety during the introductory period and before interest kicks in. For your student loans, several institutions can help you refinance your loans. Start with Student Loan Hero* for personalized advice on your best options.

6. Stick to a budget

Saving for a home doesn't mean you have to give up everything. As long as you stick to a budget, you could still enjoy an occasional dinner out or visit to the mall. One way to stay on budget is to write out your shopping list before you get to the store. If you find yourself tempted to buy something that's not on it, think about whether you want that item more than to own a home. This will keep you on track!

What impact does my credit score have on applying for a mortgage?

To qualify for a mortgage, especially one with a low-interest rate, you'll usually need to have a good credit score. The most common scoring model is the FICO score, issued by Fair Isaac Corporation. Scores range from 300 to 850—the higher, the better.



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The following are the factors used to calculate your credit score:



Payment history (35%)

If you make a late payment, your score will be impacted. The more recent, frequent, and severe the lateness, the lower your score. Bankruptcies, judgments, and collection accounts have a serious negative impact.



Amounts owed (30%)

Carrying high balances on revolving debt (like credit cards) and personal loans, especially if the balances are close to the credit limits, will lower your score.



Length of credit history (15%)

The longer you have had your accounts, the better. If you have a zero balance on your account, simply make one small purchase every year so that the institution will not automatically close your account.



New credit (10%)

Having recent inquiries and opening new accounts can lower your score. However, all mortgage or auto loan inquiries that occur within a short period of time are considered just one inquiry for scoring purposes, and you accessing your report does not affect your score.



Types of credit used (10%)

Having a variety of accounts, such as credit cards, retail accounts, and loans, boosts your score.

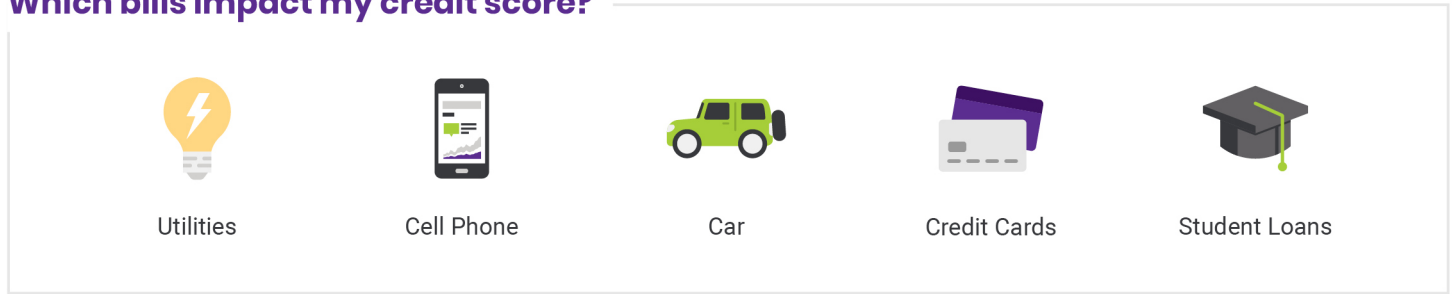
The better your credit score, the better the interest rate you'll qualify for. Don't know your credit score? Take advantage of pulling a free annual credit report every twelve months from www.annualcreditreport.com*. If your credit score is less than ideal, don't stress. There are many ways you can start improving your credit health. Here are some of the best ways to boost your credit score: <https://www.loanDepot.com/knowledge-cafe/news/greene-credit-score-and-mortgages>

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Source: <https://www.experian.com/blogs/ask-experian/fico-score-powered-experian-understanding-key-factors> | loanDepot.com, LLC is not a credit repair company or credit repair organization. loanDepot does not guarantee improvement of your credit worthiness, credit standing, or credit capacity. Any actions you take regarding your personal finances are done at your discretion. loanDepot does not guarantee that you will become eligible for a loan. This is not a commitment to lend or extend credit.



Which bills impact my credit score?



Utilities





Cell Phone

Car

Credit Cards

Student Loans

As shown in the chart below, every 1% rate hike can result in you losing a substantial amount of purchase power.

Purchase Price / Loan Amount	Interest Rate	APR	Monthly Payment
 \$350,000 / \$280,000	3%	3.178%	\$1,180
 \$309,000 / \$247,200	4%	4.191%	\$1,180
 \$274,800 / \$219,840	5%	5.206%	\$1,180
 \$246,00 / \$196,800	6%	6.223%	\$1,180

Conventional Fixed 30 program with 20% down payment. Rates, terms, and availability of programs are subject to change without notice. Not all products are available in all states or for all amounts. Additional conditions, qualifications, and restrictions may apply. This is not an offer for extension of credit or a commitment to lend.



To help you determine how much house you can afford, check out our easy-to-use Affordability Calculator at www.loanDepot.com/mortgage-calculator/affordability.

What homeownership expenses should I take into account?

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

- Homeowners insurance, interest, and taxes (typically factored into your monthly mortgage payment)
- Maintenance costs
- Utilities
- Water and garbage services
- Unexpected repairs
- Furniture
- Initial moving costs



SECTION 2:

Turning to the Pros



What should I look for in a lender?

Our home is more than just four walls and a place to eat and sleep. It's where memories are made and some of our biggest life events happen at the place we call home. So how do you determine the right lender to support one of the biggest decisions of your life?

One common misconception among homebuyers is that an interest rate is the only factor to consider when shopping for a mortgage. While obtaining a competitive rate is certainly an important aspect, it's not the only factor to evaluate. You should consider who facilitates your mortgage process, the best loan product, ease of use, transactional speed and the overall experience.

Here's a look at 5 important elements you should pay attention to when shopping for a mortgage:

1 TRANSACTIONAL SPEED AND CERTAINTY
In a competitive market where sellers contemplate the best offers, cash is king. But if you don't have a personal Brink's truck, your best bet is a speedy and tailored mortgage transaction. With a traditional mortgage cycle averaging 35 days, choosing a lender who can move lightning fast from pre-approval to closing can be vital to snagging your dream home. With loanDepot's digital mortgage application, the mello smartloan™, you can skip the paper chase and close on your new home in as little as 8 days*. Having the speed and certainty of knowing your loan won't fall through can provide a massive advantage over other competing buyers!

2 PREMIER PRODUCT SUITE
Finding a low rate is great, but it's not so great if your lender lacks the mortgage product best suited to your situation. Since your home will most likely become the largest asset you own, you want to secure the right home loan for your goals. For example, if you are seeking to purchase a fixer-upper, you'll want to work with a lender who can provide you with several different renovation loan options. loanDepot offers more than 300 attractive mortgage products ready to meet your specific needs.

* Closing times may vary depending on the terms and conditions of the loan.



3

CREDIT SCORE, DOWN PAYMENT AND FEES

The three most important factors tied to your interest rate are credit score, down payment and mortgage fees. If you notice certain rates being advertised online, chances are they may be vastly different from the one you'll actually receive. That's because your rate will be calculated based on the level of risk you provide to the lender. So choose wisely and work with a trusted loan consultant who can crunch the numbers based on your specific financial profile.

4

LIFELONG RELATIONSHIP

Building a lifelong relationship with your lender can benefit you for years to come. Just like you would expect your doctor to give advice based on your health history, you'd want a lender to consider your current situation and long-term outcome when providing a mortgage recommendation. loanDepot's licensed loan consultants are ready to roll up their sleeves and find the loan that best fits your personal circumstances – all while providing superior customer service.

How do I select the right real estate agent?

There are several steps you can take to find a real estate agent you will be happy with:



VISIT MELLOHOME

mellohome, a sister company of loanDepot, helps connect buyers like you with the best local real estate pros. Get connected with a vetted, top real estate professional in your area today.



ASK FOR REFERRALS

Many of your friends and relatives have probably bought and sold their homes through real estate agents. Ask them who they would recommend.



COMPARISON SHOP

Talk to several prospective agents and ask questions:

- How long have you worked in real estate?
- Is this your full-time job?
- How well do you know the neighborhoods I'm considering?
- How many homes have you successfully sold in the last year?
- Where can I go to see some of your client reviews?



AVOID USING THE SELLER'S AGENT

Many people choose the real estate agent selling the house they want to put an offer on. This is usually not a good idea. Because the real estate agent is working for you and the seller, he or she cannot effectively advocate for you.



**UP TO
\$7,000 CASH BACK***

More Than a Mortgage

REAL ESTATE • MORTGAGE • TITLE INSURANCE • HOME SECURITY

When you buy and sell a home, you could get up to \$7,000 cash back at closing when you sign up for the loanDepot Grand Slam powered by mellohome.*

✓ We pair you up with a mellohome network real estate agent

✓ You work with an expert loan consultant

✓ You experience a more hassle-free, one-stop homebuying and selling experience

powered by
mellohome™

* See Official Terms and Conditions at mellohome.com. Participation in the Grand Slam program is optional and is not required in order to obtain services from loanDepot or mellohome. Terms differ for Alabama, Kansas, Louisiana, Tennessee, Oregon and Oklahoma. Not offered in Alaska, Missouri, Mississippi and Iowa. loanDepot.com, LLC. All rights reserved. NMLS #174457. www.nmlsconsumeraccess.org. For more licensing information, please visit www.loanDepot.com/licensing. Equal Housing Opportunity. mellohome is a licensed Texas real estate brokerage and a sister company to loanDepot.com, LLC. 5465 Legacy Dr., Plano, TX 75024



SECTION 3:

Pre-Approval



What is a pre-approval?*

Before you go any further, it's important to get pre-approved. Getting pre-approved for a loan means that you know how much money a lender is willing to give you, at what rate, and at what terms. Pre-approval involves submitting a preliminary application to a lender that will then review your credit, your income, and other factors, and tell you what loans are available to you.

loanDepot's mello smartloan™ allows you to skip the paper-chase by digitally connecting your income, employment and assets—making it the swiftest, and most secure data verification process you'll ever experience.

loanDepot offers the following qualification benefits:

- No digging through old files for pay stubs, tax returns, banks statements, W2s, etc.
- No need to scan and email sensitive financial information
- No worries that strangers have access to your sensitive financial information
- Once provided digitally, income, employment, assets and credit can be near-instantly verified

Why do I need to get pre-approved?

ALLOWS YOU TO BUDGET

A pre-approval instantly lets you know your actual budget. Knowing what you can afford from the start will help you and your real estate agent better focus your efforts to what type of home you will qualify for. You'll avoid falling in love with a property that may be out of reach financially.

PROVES YOUR ABILITY TO AFFORD THE PROPERTY TO THE SELLERS

Being pre-approved assures the seller that you are a serious buyer and have access to the loan necessary to facilitate your offer. Your lender will provide you with a letter demonstrating that you are pre-approved for up to a certain amount, which you can provide with your offer.

* A pre-approval is preliminarily approved based only upon the information we have received to date from you. All information must be verified prior to the issuance of a final loan approval. This is not an offer or commitment to lend nor does it guarantee a final loan approval. A final loan approval is subject to verification of the information you have provided and full underwriting review by loanDepot.

SECTION 4:

Deciding on a Home

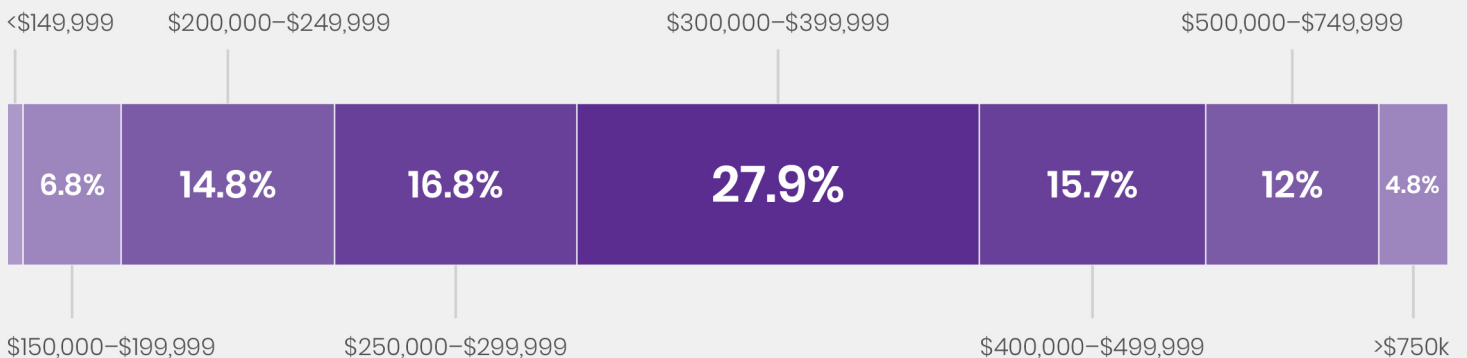


How do I decide on the right home for me?

Now that you know how much you can afford, you have your pre-approval letter, and you've selected a trusted realtor, you're ready to get serious with your home search. Some things to consider include:

- Price
- Number of bedrooms and bathrooms
- Square footage
- Layout
- Type of home (such as single-family or condo, ranch or two-story)
- Safety
- School district
- Location (city vs. suburbs)
- Noise
- Fixer-upper (undergoing renovation) vs. move-in ready home

Home Purchase Prices



Source: U.S. Census Bureau – https://www.census.gov/construction/nrs/pdf/quarterly_sales.pdf



Most first-time buyers' budgets are limited, so you may not be able to get everything you want. Think about what you feel is most important in a home. You may not be able to get a pool and three-car garage, but if you have three children, you probably do not want a one bedroom, one-bathroom house.



MUST HAVES

What is your minimum number of bedrooms and bathrooms?



MAYBES

Do you love to cook but could really get away with a smaller kitchen?



NO WAYS

Are you opposed to having stairs and therefore need to eliminate two story homes?



PRO TIP: Figuring out exactly the type of home you want will impact which mortgage product is best for your objective. For example, if you cannot find a large enough home in your ideal neighborhood, a loanDepot Renovation Loan can help create that dream kitchen or extra bedroom, and lump the cost of home improvements into a single mortgage payment!

Should I lock my rate, and if so, when?*

If you're concerned about rising interest rates as you shop for your home, getting a rate lock may be a smart decision. With a rate lock, you will typically be guaranteed a certain rate, for a specific amount of time, usually 30, 45 or 60 days. However, with loanDepot's newest 75-day Rate Lock, you not only hedge rate volatility, but also get the time, flexibility and peace of mind to find the right home in a competitive market.

What if rates go down during my lock period?

We got you covered! loanDepot's Rate Lock with Float Down is a type of rate lock that offers a specific advantage: If rates decline between now and the time you close your loan, you can still get the lower rate. This way, you are guarded against either possibility—should rates rise or fall.



* Interest rate lock requires a deposit to \$250 fee for the float down option, \$500 fee applies to jumbo loans. Upfront deposit fully refundable at closing if buyer chooses to close with loanDepot, or if loan is denied. If buyer cancels loan with a chosen property within the lock period, there will be no reimbursement for any out-of-pocket, loan related costs including the lock deposit. Other terms and restrictions apply. Rates, terms and availability of programs are subject to change without notice.



SECTION 5:

Demystifying Loan Types



How do I determine the best mortgage for my needs?

Once you have agreed to a specific purchase price, you'll move forward with finalizing your home loan terms. loanDepot has over 300 mortgage products to choose from, no matter what your needs are we have you covered!

Here are some of the most common mortgage loans you will encounter:*

CONVENTIONAL

Best For: The vast majority of buyers
Down Payment: 20% (could go as low as 3%)

FHA

Most popular home loan among newbies!

Best For: First-time buyers with low credit scores
Down Payment: As low as 3.5%

VA

Subject to VA eligibility

Best For: Veterans and active-duty service members
Down Payment: 0%

JUMBO

Loans over the conforming limit

Best For: Luxury buyer or high-cost markets
Down Payment: As low as 5%

RENOVATION

Best For: Buyers who choose fixer-uppers
Down Payment: As low as 3.5%

We can't afford the kind of home we want in a good school district.



We were able to use a renovation loan to get the features our family needed!

* Loans are subject to credit and property approval. Other limitations apply. Rates, terms and availability of programs are subject to change without notice.

What if I am still short on down payment funds or closing costs? Can I still buy a home?

You might be surprised how many programs exist to help buyers—especially first-time homebuyers. There are several ways to help you find additional funds to purchase a home.



GIFT FUNDS

The bank of mom and dad, or any monetary gift from a family member can be used for down payment or closing costs given proper documentation.

If down payment gift money is provided to home buyers, both the donor(s) and recipient(s) must sign a mortgage gift letter. Gift letters state that the money changing hands is not a loan. Keep in mind that all fund transfers for mortgage down payment gifts must have a paper trail. Money can't magically come out of thin air at the closing!



DOWN PAYMENT ASSISTANCE PROGRAMS

There are hundreds of national and local down payment assistance programs to help you meet your down payment needs or closing costs. Speak with your loan consultant or research online.



SELLER CONTRIBUTIONS

If you are short on funds for closing costs, you can always ask the sellers to agree to a specific dollar amount to contribute at closing to solidify the deal.



LENDER CREDITS

Some lenders may allow you to pay a slightly higher interest rate in exchange for covering your closing fees.

Are you a veteran or an active-duty service member?

Speak with your loan consultant about exercising your VA Benefit and qualifying for a zero down payment loan with no mortgage insurance.

Should I choose a fixed-rate or an adjustable-rate mortgage?

The vast majority of homeowners with mortgages today have fixed-rate mortgages. They make the same monthly payment every month for the term of the loan, usually 15 or 30 years, unless they sell the home or refinance before then. A much smaller number of owners have adjustable-rate mortgages, or ARMs. Which one of these two makes more sense for you?



We knew our family would be moving within the next 5 years so going with a 5-year ARM was a no-brainer.

Fixed Rate Mortgage

vs.

Adjustable Rate Mortgage

PROS

- ✓ Consistent monthly payments and interest rates
- ✓ Protection from rising interest rates
- ✓ Mortgage tax interest deduction
- ✓ Different term length options (30, 20, or 15 year term)

CONS

- ↓ Cannot take advantage of falling interest rates
- ↓ Your interest rate may be locked in when the market is high
- ↓ It can initially be more expensive
- ↓ The rate cannot be customized to a borrower's needs

PROS

- ✓ Lower initial monthly payments
- ✓ Possibility to qualify for higher loan amounts
- ✓ Interest rate/payments may decrease based on the index rate
- ✓ Good option for buyers who are planning on living their home for only a few years

CONS

- ↓ Your interest rates could unexpectedly increase
- ↓ Your interest rates are dependent upon the market
- ↓ Risk of defaulting if interest rates dramatically increase
- ↓ Terms and conditions of the loan program can be more difficult to understand

How do I make my offer stand out among other buyers?

In today's market, where attractive property listings can go from "Active" to "Pending" within days or even hours, it's key to possess the power to compete with cash buyers. Unfortunately, for those who choose a more traditional journey, the experience can take anywhere from 30 to 40 days or more. When speed is of the essence, loanDepot is here to help. Using our mello smartloan™, for example, some borrowers are clear to close in as little as 8 days. Having the power to close in as little as 8 days* is a tremendous value add when competing for properties with multiple bids or cash buyers.

* Closing times may vary depending on the terms and conditions of the loan.



Did you know that renovation loans may be one of real estate's best-kept secrets?

We understand that undertaking a home renovation project can get expensive, but what if you don't have to put your dream on hold? Whether you're thinking of a kitchen remodel or a room addition, loanDepot makes financing more simple with our powerful renovation loan products!

This type of mortgage financing allows for both the purchase price and the renovation costs to be lumped into a single mortgage payment. It's a great solution for those looking to create their dream home, especially in markets where inventory may be tight.

BENEFITS OF USING A RENOVATION LOAN:

- Ability to personalize a home you love
- Potential for home equity appreciation upon upgrade completion
- No need for a second mortgage or use of high-interest credit cards
- Create a comfortable and functional space
- Get into your ideal neighborhood



Renovation Products Offered through loanDepot

**FHA 203k
Standard**

**FHA 203k
Limited**

**VA
Renovation***

**HomeStyle®
Renovation**

Rates, terms and availability of programs are subject to change without notice. * Subject to VA Eligibility.

SECTION 6:

Closing Time



How does making an offer work?

Once you find the house you want to purchase, your real estate agent will prepare a written offer and present it along with earnest money to the seller. Offers typically have at least three components: **the purchase price, the closing date, and how long the offer will be valid.**

The seller will then accept, counter, or reject the offer. If the seller accepts the offer, the house is taken off the market, and you are officially under contract. The only way to legally cancel the contract is if a contingency is not met. Otherwise, if you walk away from the house, you lose your earnest money deposit.



What is earnest money?

Along with the written offer, it is customary to give the seller earnest money, also called a good faith deposit. Usually, the amount is between 1–3% of the offered purchase price, but customs vary from place to place. This money is part of the down payment and shows the seller that you are serious about purchasing the listed home.



How much are typical closing costs?

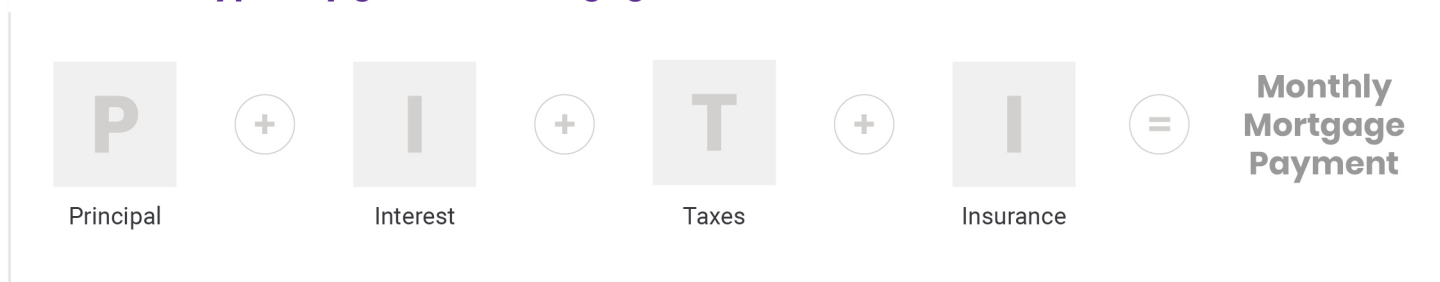
Closing costs typically range between 2–5% of the purchase price. For example, on a \$300,000 home, closing costs may range between \$6,000 and \$15,000, so it's certainly important to budget for this expense. Sometimes the seller will agree to pay them entirely or pay a portion of them. You can also have closing cost financed into your mortgage.

How much is a home appraisal, who pays for it, and why is it necessary?

A typical appraisal will cost anywhere between \$300–\$400. Larger, more complex properties that require more appraisal work may cost more. While the buyers typically pay for the appraisal, there is no hard rule on who pays for it. The decision is completely negotiable with sellers. The appraisal process usually takes 3–10 business days.

The main reason you need an appraisal is to not pay more than the property is worth. Another reason is to protect the lender issuing the mortgage in the case of mortgage default. If the actual market value of the property is lower than the sales price, the lender wouldn't be able to sell the property for enough money to cover the loan.

What costs typically go into a mortgage?



What are some things to avoid before my closing?

You may be excited to start furnishing your new home or purchasing appliances, but make sure you do those things AFTER your closing. Many first-time homeowners end up jeopardizing the deal by setting off red flags. Make sure you avoid the following mortgage mistakes prior to closing:



DON'T MOVE YOUR MONEY

- Leave your money right where it is (same bank, same account) until your loan is closed.
- Don't make unsourceable cash deposits (hard to trace, hard to explain) to your bank account.
- Deposits to your account that aren't payroll or direct deposit income must be documented and sourced.
- If you receive tips, keep a daily tip log to match your bank deposits.
- Don't co-sign loans for anyone.



DON'T CHANGE JOBS

- Changing jobs before or during the loan process will slow your loan approval, especially if the job is in a different line of work or at a lower rate of pay. More information must be verified.
- If you're an hourly employee, don't work fewer hours. Updated pay stubs will be required before closing.



DON'T MAKE MAJOR PURCHASES

- A high-ticket consumer purchase, like a car or home theater system, can torpedo your ability to afford a home.
- Increasing your consumer debt or, if you pay cash, decreasing your cash reserves could jeopardize your loan approval.

Closing the sale

At closing, you will sign all the paperwork required to complete the purchase, including your loan documents. It typically takes a couple of days for your loan to be funded after the paperwork is returned to the lender. Once the funds are delivered to the seller, and the title transfers, you are ready to move into your new home!



SECTION 7:

Planning Ahead



Owning a home is a great way to invest in your personal wealth and financial wellbeing. But it is important to remember there is no landlord to call upon when issues arise. You are personally responsible for all the extra costs of owning a home which includes plumbing and roof repairs, interior updates and appliances, and increases in taxes and/or insurance. Setting money aside for these costs each month will make sure there are no financial emergencies in your future.

Remember these details!

You will receive several important documents at closing. Keep these in a safe and handy place. You want to be able to access them in case any questions about your home arise.

Be sure to stay in touch with your Loan Consultant. Should you seek to move homes or refinance your existing mortgage, they'll be able to help you find the best financing solution for your needs.

As a new homeowner, you'll realize quickly that it takes a lot of work to protect your biggest investment. Create an annual home maintenance plan or checklist to help you stay on top of projects that should be completed throughout the year, whether it be changing air filters or cleaning gutters.

SECTION 8:

Glossary



A

ADJUSTABLE-RATE MORTGAGE (ARM)

A mortgage loan with an interest rate that can change at any time, usually in response to the market or Treasury Bill rates. These types of loans usually start off with a lower interest rate comparable to a fixed-rate mortgage.

ANNUAL PERCENTAGE RATE (APR)

The APR includes the interest rate as well as other fees that will be included over the life of the loan (closing costs, fees, etc.) and shows your total annual cost of borrowing. As a result, the APR is higher than the simple interest of the mortgage. That's why it's always important when comparing lenders to look at the APRs quoted and not just the interest rate.

APPRAISER

A person qualified by education, training, and experience to estimate the value of real and personal property.

APPRECIATION

An increase in value of property for any reason, except inflation.

B

BALLOON PAYMENT

A balloon payment is a larger-than-usual one-time payment at the end of the loan term. If you have a mortgage with a balloon payment, your payments may be lower in the years before the balloon payment comes due, but you could owe a big amount at the end of the loan.

BANKRUPTCY

A legal proceeding in federal court in which a debtor seeks to restructure his or her obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower's personal liability for a mortgage debt, but not the lien securing the mortgage.

BOND

A type of debt, similar to an IOU. When you buy a bond, you're lending to the issuer, which may be a government, municipality, or corporation. The issuer promises to pay you a specified rate of interest during the life of the bond and to repay the principal—also known as the bond's face value or par value—when the bond "matures," or comes due after a set period.

C

CERTIFICATE OF DEPOSIT (CD)

Savings tool with fixed maturity date and fixed interest rate.

CHARGE-OFF

To treat as a loss; to designate as an expense an amount originally recorded as an asset.

CLOSING COSTS

Various fees required to conclude a real estate transaction.

CLOSING DATE

In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

COLLATERAL

An asset that secures a loan or other debt that a lender can take if you don't repay the money you borrow. For example, if you get a home loan, the bank's collateral is typically your house.

COMMISSION INCOME

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.



CONDO

A form of homeownership that combines individual ownership of a unit with shared ownership of common facilities. Each owner has a separate mortgage for his or her unit and is responsible for making the payments on the loan and paying associated real estate taxes. An elected board of directors is responsible for operations and management of the common facilities. Each owner pays a monthly recurring fee that covers their share of the cost to repair and maintain the common facilities.

CONDO FEES

Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. Condo fees are not included in your monthly mortgage payment and must be paid directly to the condo/homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from condo to condo.

CONVENTIONAL FINANCING

In real estate, mortgage financing that is not insured or guaranteed by a government agency such as HUD/FHA, VA, or the Rural Housing Service.

CREDIT BUREAU

An institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.

CREDIT REPORT

A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

CREDIT SCORE

A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

D

DEBT-TO-INCOME RATIO (DTI)

Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income.

DEED

A legal document under which ownership of a property is conveyed.

DEPARTMENT OF VETERANS AFFAIRS (VA)

The Department of Veterans Affairs runs programs benefiting veterans and members of their families. It offers education opportunities and rehabilitation services and provides compensation payments for disabilities or death related to military service, home loan guaranties, pensions, burials, and health care that includes the services of nursing homes, clinics, and medical centers.

DEPRECIATION

A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.

DISCOUNT POINT

Amount payable to the lending institution by the borrower or seller to increase the lender's effective yield. It may represent a payment for services rendered in issuing a loan or additional interest to the lender payable in advance. One point is equal to 1 percent of the loan.

DOWN PAYMENT

The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

E

EARNEST MONEY

You typically will need to pay what's called "earnest money" which shows the seller you are serious about buying the home. Think of earnest money as a deposit you are providing the seller (usually around \$500 - \$1,000 or a certain percentage of the offer price) that will be applied to the purchase once the contract is finalized.

ECLOSING

An eClosing is the act of closing a mortgage loan electronically. This occurs through a secure digital environment where some or all of the closing documents are accessed and executed electronically. This can be a hybrid process in which certain key documents, such as the promissory note and security instrument, are printed to paper and wet-signed, while other documents are signed electronically. eClosings result in eMortgages only if the promissory note is signed electronically.

EMORTGAGE

The term "eMortgage" generally refers to the use of electronic processes and signatures in the mortgage production process. Specifically, it refers to electronically signed closing documents paired with an original electronic promissory note (eNote) signed on an eClosing platform and registered with the MERS eRegistry® upon execution. The terms "electronic mortgage," "electronic mortgage loan," "eMortgage," and "eMortgage loan" have the same meaning.



EQUITY

Ownership interest in a property. This is the difference between the home's market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).

ESCROW

An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

ESCROW ACCOUNT

The actual account where the escrow funds are held in trust.

F

FEDERAL HOUSING ADMINISTRATION (FHA)

Provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories.

FHA insures mortgages on single-family, multifamily, and manufactured homes and hospitals. It is the largest insurer of mortgages in the world, insuring over 34 million properties since its inception in 1934.

FIXED-RATE MORTGAGE (FRM)

A mortgage loan in which the interest rate remains the same for the life of the loan.

FORECLOSURE

The legal process by which a property may be sold and the proceeds of the sale applied to the mortgage debt. A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the homeowner is in default for a reason other than the failure to make timely mortgage payments.

H

HAZARD INSURANCE

Insurance coverage that pays for the loss or damage on a person's home or property (due to fire, natural disasters, etc.). This is usually added as a supplement to homeowners insurance.

HOME APPRAISAL

A written estimate or opinion of a property's value prepared by a qualified appraiser.

HOME PURCHASE PRICE

The final selling price of a home.

HOMEOWNERS ASSOCIATION FEE

Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. HOA fees are not included in your monthly mortgage payment and must be paid directly to the homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from association to association.

HOMEOWNERS INSURANCE

Covers a home's structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

I

INTEREST RATE

An interest rate on a mortgage loan is the cost you will pay each year to borrow the money, expressed as a percentage rate. It does not reflect fees or any other charges you may have to pay for the loan. For example, if the mortgage loan is for \$100,000 at an interest rate of 4 percent, that consumer has agreed to pay \$4,000 each year he or she borrows or owes that full amount.

L

LENDER

An organization or person that lends money with the expectation that it will be repaid, generally with interest.

LIEN

A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.

LOAN ADMINISTRATION (SERVICER)

A mortgage banking function which includes the receipt of payments, customer service, escrow administration, investor accounting, collections, and foreclosures. Also called "servicing."

M

MANUFACTURED HOME (MH)

A dwelling of at least 400 square feet and at least 12 feet wide, constructed to the "HUD Code" for manufactured housing, that is built on a permanent chassis, installed on a permanent foundation system, and titled as real estate.

MORTGAGE

A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.



MORTGAGE INSURANCE (MI)

Insurance that protects the mortgage company against losses caused by a homeowner's default on a mortgage loan. Mortgage insurance (or MI) typically is required if the homeowner's down payment is less than 20% of the purchase price.

P

PLANNED UNIT DEVELOPMENT (PUD)

A single-family residence located in a community with association dues and other required monthly payments.

PRE-APPROVAL

Pre-approval is a bigger step than pre-qualification, but it is a better commitment from the lender. This involves completing a mortgage application and providing the lender with your income documentation and personal records. If you qualify for a mortgage, the lender will be able to provide the amount of financing and the potential interest rate (you might even be able to lock in the rate). You'll be able to see an estimate of your monthly payment (before taxes and insurance because you haven't found a property yet).

PRE-QUALIFICATION

With pre-qualification the lender provides the mortgage amount for which you may qualify. Pre-qualifying can help you have an idea of your financing amount (and the process is usually quick and free), but you won't know if you actually qualify for a mortgage until you get pre-approved.

PRINCIPAL

The amount a person borrows from a lender (also referred to as "amount financed").

PROMISSORY NOTE

A legally binding document stating that the borrower promises to repay the lender for the full loan amount plus interest.

PROPERTY TAXES

The amount individuals pay to their local city/municipality and sometimes county, based on the value of their property.

R

REVOLVING CHARGE ACCOUNT

A Revolving Charge Account refers to a credit arrangement that requires the borrower to make periodic payments but does not require full repayment by a specified point of time.

S

SECURED CARD

Credit card that typically requires a cash security deposit. The larger the security deposit, the higher the credit limit. Secured cards are often used to build credit history.

T

TITLE

The documented evidence that a person or organization has ownership of real property.

TITLE COMPANY

An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

TITLE INSURANCE

Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.

TITLE SEARCH

A process whereby the title company retrieves and examines public records that document the history of a property to confirm its legal ownership.

TOWNHOME

A townhouse, or townhome, is a house that has two or three levels and that is attached to a similar house by a shared wall.

U

UNDERWRITING

In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower's ability and willingness to repay the loan.

UNSECURED CREDIT CARD

A credit card with no security deposit required.



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