



# HOME FINANCING GUIDE



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## **SECTION 1: Mortgage Loans Available**

### **Fixed Rate Mortgages**

A fixed rate mortgage is a home loan with a rate that remains the same over the entire term of the loan, regardless of how interest rates change in the marketplace. This type of loan offers stability and the comfort of knowing your interest rate won't change. Your monthly principal and interest payment amounts remain the same for the entire term of the loan. If you are escrowing, keep in mind your total monthly payment can occasionally change based on your property taxes and/or homeowner's insurance. Because you will know your monthly mortgage expense for the entire mortgage term, budgeting will be easier. The interest rate may be higher with a fixed rate mortgage compared to other types of mortgages.

### **Adjustable Rate Mortgages**

With an adjustable rate mortgage (ARM) the interest rate can change during the life of the loan. ARMs have adjustment periods to determine when and how often the interest rate can change. For example, a 3/1, 5/1 or 10/1 ARM has a fixed rate for the first three, five, or ten years, followed by a rate that adjusts every year for the remainder of the loan term. During that time, the interest rate can increase or decrease, causing your monthly payment to do the same. When the rate is set to adjust, it fluctuates at the same rate as an index (i.e. current T-bill rate) spelled out in the closing documents. Borrowers have protection from extreme changes because ARMs have interest rate caps or maximums. ARMs are attractive to borrowers because the interest rate for ARMs is usually lower than fixed rate loans. ARMs are usually retained "in-house" by CoVantage, which means CoVantage will be doing the decision-making and collection of payments.

### **In-House vs. Secondary Market**

CoVantage Credit Union offers in-house and secondary market mortgages. In-house mortgages are loans that stay at CoVantage and have the opportunity for a loan interest rebate and lower closing costs. Secondary market mortgages are serviced at CoVantage, and then sold to another CoVantage-affiliated mortgage company. Secondary market mortgages offer members opportunities for longer fixed term loans, lower down payment options, and specialty loan programs. For example, CoVantage does not offer an in-house 30 year fixed rate loan, but does offer this product through the secondary market.

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## **SECTION 1: Mortgage Loans Available (continued)**

### **Other Specialty Loan Programs Available at CoVantage**

#### **Rural Development**

Rural Development is a 30-year fixed rate loan that is offered through the United States Department of Agriculture. Rural Development loans are serviced at CoVantage, but are not credit union in-house loans. With Rural Development loans, borrowers have the opportunity for financing up to 101% loan-to-value (LTV). There may be county income limit requirements, and restrictions as to where the property can be located in order for a borrower to qualify for this program.

#### **Home Ready**

Home Ready is a 30-year fixed rate loan offered through Fannie Mae. This type of loan is serviced at CoVantage, but is a secondary market loan. With the Home Ready program, non-occupant borrowers such as a parent may be able to be on the loan. The Home Ready Program also has lower PMI rates compared to standard requirements, and gifts, grants, and cash-on-hand are permitted as a source of funds for down payment and closing costs. The property must be owner-occupied, and there may be county income limits. Homebuyer education may be required to qualify for this program.

#### **WHEDA**

WHEDA is a 30-year fixed rate loan that is offered through Wisconsin Housing and Economic Development Authority. They are originated through CoVantage Credit Union, but serviced in Madison, Wisconsin at WHEDA office. To help with down payment and closing costs, you can obtain an easy-close 2nd mortgage for the same rate as your first mortgage. WHEDA will finance single family homes up to a 4-unit owner-occupied property. You do NOT need to be a first time home buyer; however, there may be special financing rates for First Time Home Buyers and veterans with Honorable Discharge Paperwork. Homebuyer education may be required to qualify for this program.

## **SECTION 2: Basic Mortgage Terminology**

**Amortization** – The total of your principal, interest and escrow is divided into equal payments over the life of the loan. Early in the loan term, your payments will pay more toward interest, and eventually more toward the principal later in the loan term.

**Appraisal or appraised value** – An estimate of the fair market value of a property. A professional appraiser usually performs the appraisal in connection with an application for a loan secured by a home and provides a written report.

**Closing Costs** – These are the costs that the buyer must pay during the mortgage process. There are various closing costs involved ranging from recording fees, title insurance, and other costs associated with the mortgage closing.

**Closing Disclosure** – A five-page form that provides final details about the mortgage loan you have selected that includes the loan terms, your projected monthly payment, and how much you will pay in fees to get your mortgage loan. Lenders are required by law to have you acknowledge the closing disclosure at least three days prior to closing in person or mail it to you seven days prior to closing.

**Down payment** – An initial cash payment a buyer pays that is not financed with a mortgage. Most mortgage lenders require a cash down payment of 5%, 10% or 20% of the purchase price. You can often lower your mortgage payment and/or afford a more expensive house by putting more money down. If you come up with less than 20% of the purchase price, you may have to obtain private mortgage insurance (PMI).

**Escrow** – This account is used to collect and hold funds to pay your property taxes, homeowner's insurance and possible other charges. The account is usually established for you by your financial institution or mortgage company. Your property taxes and homeowner's insurance expenses are included as part of your monthly mortgage payment and placed in your escrow account. The money accumulates until you pay your property taxes and insurance premium on a specific due date. Once a year, your financial institution or mortgage company evaluates your escrow account. In some cases, too much has been collected and the surplus is returned to you. In other cases, the money paid out for taxes and insurance may have been higher than the amount in your escrow account. In this case, you will have to supplement the payments with another source of funding. Adjustments will then be made to your allocated escrow amount, and your payments will change because of these adjustments.

**Flood Search** – A determination by a reputable source about whether property is located within a special flood hazard zone. A lender will require a flood search/certification before making a loan on a home.

**Interest** – The amount the financial institution charges you to use their money. Principal and interest together comprise most of your monthly payment, while the remainder of your payment is your escrow.

**Loan estimate** – A written estimate including expected closing costs a lender must provide a prospective home buyer. This estimate must be supplied by CoVantage within three days of the home buyer submitting a mortgage loan application. Lenders are required by law to make as accurate an estimate as they can.

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## **SECTION 2: Terminology (continued)**

**Loan Principal** – The amount you actually borrow to purchase the home.

**Loan Term** – The number of years it will take to repay your mortgage if you make no more than the required principal and interest payments every month. Terms are usually 10, 15, 20, or 30 years. Generally, the shorter the term, the lower the interest rate, but the higher the monthly payment.

**Loan-to-Value (LTV)** – a LTV ratio is the mortgage amount (expressed as a percentage) compared to the appraised value or purchase price of the home, whichever is lower. For example, if the appraised value of a home is \$100,000 and your down payment is \$20,000 (20% of the value), your loan amount will be \$80,000, making your LTV 80%.

**Margin** – The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

**Origination fee** – A fee imposed by a lender to cover processing expenses in connection with making a mortgage loan. These fees are due at closing and must be disclosed on the Loan Estimate when a buyer first completes a loan application.

**Private Mortgage Insurance (PMI)** – When you borrow more than 80% of your home's value, your lender will sometimes require you to obtain Private Mortgage Insurance or PMI. This insurance protects the lender against loss if you default on your home loan. The cost of PMI varies. It is based on the size of the down payment, type of mortgage, credit score, type of home, and amount of coverage. Premiums are typically folded into your monthly mortgage payment. Some lenders may offer PMI as a financed premium along with the mortgage. It is important to note that when you have accumulated 20% of the value (equity) in your home, you will want to check into canceling your PMI. This can lower your mortgage payment if your premium has been included with your principal and interest monthly obligation.

**Total Interest Percentage (TIP)** – This is the total amount of interest that the borrower will pay over the life of the loan, expressed as a percentage of the loan amount ( $\text{interest/Loan Amount} = \text{TIP}$ ).

**Treasury index** – An index that is used to determine interest rate changes for adjustable rate mortgage (ARM). It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills (T-bills) and securities, or is derived from the U.S. Treasury's daily yield curve. CoVantage uses the T-bill rate for mortgages.

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## **SECTION 3: Frequently Asked Questions about a Mortgage**

### **What is the difference between the interest rate and the Annual Percentage Rate (APR)?**

The interest rate is the annual rate you pay on the money you borrow for your mortgage. It establishes the initial amount of your monthly principal and interest payments, and will vary unless it's locked in. The APR, which is usually higher than the interest rate, includes certain fees, and other closing costs.

### **Is a borrower required to have an escrow for their taxes and insurance?**

Some in-house loans require an escrow depending on your LTV, loan term, and credit history. If an escrow is not required for your loan, we encourage members to designate a special savings account at CoVantage for those funds.

### **What are some examples of different ARM products and how are they described?**

A 1/1 ARM will adjust up or down for the first time after one year, then every year thereafter. A 3/1 ARM will adjust up or down for the first time after 3 years, then every year thereafter. A 5/1 ARM will adjust for the first time after 5 years, then every year thereafter.

### **What is the difference between Private Mortgage Insurance and the other insurances related to a home?**

Private mortgage insurance, mortgage protection insurance, and homeowners insurance are often confused. Although they sound similar, they're three totally different types of insurance. Mortgage protection insurance is essentially a life insurance policy designed to pay off your mortgage in the event of your death. Homeowners insurance covers losses occurring to one's home, its contents, or loss of other personal possessions. Private mortgage insurance (PMI) protects your lender allowing you to finance a home with a smaller down payment. These three products should never be construed as substitutes for each other.

### **What is title insurance?**

There are two different types of title insurance policies when it comes to mortgage loans. When you are purchasing a home, the seller provides you, the buyer, with an "Owner's Title Policy". This policy protects you from anyone making a claim against the home before your purchase. The other title policy is known as the "Lender's Title Policy". This policy protects the lender in case of any title issues with the property after the purchase. The title search that is completed verifies all owners of record and if there are any mortgage liens or judgements against the property. Any issues that exist would need to be cleaned up prior to closing.

## **SECTION 4: Advantages of Having Your Mortgage with CoVantage**

- Local service – Talk to one of our mortgage lenders at any time.
- Free pre-approvals.
- Payments are credited the same day they are received.
- No pre-payment penalties.
- Electronic payment options – Automatic transfer from savings or checking, MyCoVantage Digital Banking and Mobile App.
- Loan interest rebate – A percentage of interest paid on your in-house mortgage is returned to you at the end of the year. Although not guaranteed, a loan interest rebate has been paid since 1982.

## **SECTION 5: What does it cost to borrow from CoVantage?**

### **Estimated Cost to Purchase a Home (in-house financing)**

WHEDA - additional costs approximately \$500. Rural Development - additional costs approximately 1% of loan amount. Fees subject to change.

<b>1.</b>	Origination Fee	\$ 625
<b>2.</b>	Appraisal Fee	\$ 450
<b>3.</b>	Document Prep Fees	\$ 100
<b>4.</b>	Credit Bureau	\$ 55
<b>5.</b>	Wire Fee	\$ 20
<b>6.</b>	Employment Verification	\$95.90
<b>7.</b>	Flood Search	\$ 10
<b>8.</b>	Tax Service Fees	\$ 65
<b>9.</b>	Title Insurance Fees	\$ 425
<b>10.</b>	Insured Closing	\$ 300
<b>11.</b>	Recording Fees	
	a. To Record Mortgage	\$ 30
	b. To Record Deed	\$ 30
		\$2205.90

If buying a property served by well and septic, you may need an inspection by a licensed plumber to determine that it meets code and is in proper working order. In addition a safe water test is required. This fee varies, check with your realtor (not required for refinances).

## **SECTION 6: Home Loan Checklist**

**When applying for a Mortgage Loan, please provide the following information (By providing documents early in the application process it helps keep your file moving without delays):**

- Most recent payroll stubs reflecting 30 days of income & YTD earnings. (Name needs to be on check stub. If name is not on check stub, we need payroll name and FAX number of your payroll department.) Three paystubs for bi-weekly or five for weekly are needed.
- Most recent two years tax returns, including all schedules for personal and business entities.
- Most recent two years of W-2s.
- If you have a savings and checking with another financial institution, please provide your most recent two months of bank/credit union statements or follow the prompts to complete the VOA (Verification of Assets) through your MyCoVantage Mortgage App. (Your name and financial institution name must appear on the statement and include two months of transaction history. Please include all pages.)
- Most recent statements on stocks owned, cash value of life insurance, 401K programs, and pension plans or follow the prompts to complete the VOA (Verification of Assets) through your MyCoVantage Mortgage App. (Your name and financial institution name must appear on the statement with all pages included.)
- Most recent statements on any loans, credit cards, or debts that will be paid off with loan.
- Declaration page of home owner's insurance policy for each property owned. One year paid receipt for new home purchases.
- Offer to purchase if buying a home.
- Copy of previous title insurance policy if refinancing a home, as well as current mortgage statement.
- Real estate property tax bill(s) for each property owned.
- Divorce decree (if you receive child support, provide documentation for one year.)
- Complete list of residency and employment covering the last two years including the name/ address/phone numbers for all employers and past/present landlords.

First-time home buyers and members utilizing our Down Payment Assistance Program will be required to complete home buyer education and provide a completion certification.

**Please contact your Mortgage Loan Originator for the course that is required.**

Course can be completed online at one of the following:

- <https://www.fanniemae.com/education>
- <https://educate.frameworkhomeownership.org>
- <https://fhlbc.frameworkhomeownership.org>

**To apply, visit any of our offices,  
call us at 800-398-2667,  
or go to [www.covantagecu.org/applyonline](http://www.covantagecu.org/applyonline)**