MORTGAGE PLANNING GUIDE

COMMERCE
HOME MORTGAGE


ESCROW
TITLE INSURANCE
APPRAISALS
CREDIT SCORE
HOME LOAN
MORTGAGE
TITLE
PROCESS
PRE-QUALIFICATION
CLOSING COSTS

Table of Contents

GET STARTED

The Mortgage Planning Process

The process of acquiring a home loan can be a smooth and positive experience if you plan ahead and know all your options. This brochure is designed to help you understand the basics and learn how to get the best mortgage package to meet your unique needs.

Receiving the right advice and guidance can save you tens of thousands of dollars. You need to work with an experienced loan professional who can educate you about the process, accurately assess your current situation, identify the best mortgage solutions and guarantee a fast, smooth and successful transaction. Above all, a trusted mortgage professional should deliver exactly what he promises.

More than ever, the mortgage process requires careful monitoring in order to close escrow on time. Commerce Home Mortgage has the in-house systems and resources to ensure compliancy throughout the entire loan process. Plus, we will keep you informed with frequent updates.

Given the ever-changing marketplace, it's also a good idea to have an annual mortgage review. It may make sense to modify your mortgage to enhance your lifestyle. An objective analysis should consider the latest market interest rates, your cash needs and debts, income and career alterations, family changes (children's needs, caring for elderly parents, etc.) and an assessment of the equity in your home. By taking a pro-active approach with an experienced mortgage professional, your mortgage(s) will play a positive role in your overall plan.

The Basics for a Successful Mortgage Transaction

- Know your credit score — monitor and protect it.
- Determine how much you can spend on a home and how much you can afford on a monthly basis.
- Get a "Pre-Qualification" letter from a qualified mortgage professional prior to any house-hunting. This will give you an estimate on the loan amount you may qualify for based upon your verbal information.
- Evaluate all competitive mortgage products to determine which one is best for you and your future needs.
- Understand all the terms of your loan. It's best to speak with a mortgage professional who can answer all of your questions.

The Basics of Purchasing a Home

Working with both a knowledgeable Real Estate Agent and a qualified, professional Mortgage Consultant are two steps in the right direction toward ensuring that your purchase process is efficient, satisfying and financially rewarding.

Count on your real estate agent to:

- Preview and present available homes and weed out those that are overpriced or do not meet your expectations
- Help you determine the difference between a great investment and good buy
- Negotiate the best deal for you—and with your Pre-Approval Letter, your agent is sure to have the best tools available to catch the seller's attention

Count on your mortgage consultant to:

- Consult with you on the best possible loan program to meet your needs—now and in the future
- Offer you an array of possible loan programs with competitive interest rates
- Keep you informed throughout the entire process
- Communicate with your real estate agent

The Life of a Loan

01. Fill out and sign the loan application. Be prepared to supply all supporting documentation.

02. Speak with a Loan Officer about loan options and a credit report will be ordered with your authorization.

03. Initial disclosures are then sent to borrowers. Please review and return the signed Intent to Proceed form and Loan Estimate promptly.

04. Appraisal ordered and the borrower will be provided with instructions to pay the Appraisal Management Company directly.

05. Preliminary Title Report ordered via opening escrow.

06. After you supply all of the supporting documents, your loan will be submitted to underwriting.

07. Receive conditional loan approval — there may be additional conditions — all conditions will be gathered from the client and submitted to the underwriter.

08. Conditions approved and accepted by underwriter.

09. Closing costs are confirmed with escrow for review to ensure we meet expectations. Updated credit report reviewed.

10. Your loan documents are ordered and submitted to escrow for signature. Client and Realtors called.

11. Escrow will contact the Client to schedule a signing appointment. You may sign a Power of Attorney, if needed.

12. Once loan documents are signed, they will be sent to the lender for closing. Realtors updated.

13. Funds needed to complete the transaction must be in escrow prior to closing, and typically in the form of a cashier's check. Final credit check.

14. Loan is funded and recorded.

Choose the Right Mortgage Package

Commerce Home Mortgage offers multiple fixed and adjustable interest rate (ARM) programs including Jumbos, FHA, VA, Reverse Mortgages, USDA and financing for investment properties.

Every borrower's needs are different and pricing loans is complex. Your loan officer needs to factor in many unique variables such as your employment history, credit scores, loan amount and property characteristics. Don't be fooled by "teaser" rates from other lenders or your loan process may drag out and cost you more in the final analysis. To avoid any surprises or last minute disappointments, invest some time with one of our expert loan officers who can review your financial situation in detail, provide honest and accurate information, and custom-fit the right loan for you.

Commerce Home Mortgage is approved with Fannie Mae, Freddie Mac and Ginnie Mae and offers highly competitive interest rates from the nation's biggest lenders. Over the last 20 years, we have closed thousands of loans worth billions of dollars, and look forward to the opportunity to serve you.

Pre-Qualification and Pre-Approval

For home purchases, a credit report will be run and a loan application will be taken. Generally, this can be done over the phone, in person, or via our website. The loan application will be analyzed to determine the loan amount you are qualified to borrow and we will review with you your loan program options. For most loan requests, Commerce Home Mortgage will conditionally approve your loan subject to verification of your income, employment, obligations, and source of down-payment funds. Unique or larger loan requests may require this information be verified before issuing a Pre-Approval letter.

After completing the process, a letter will be generated for your real estate agent of choice, or we can refer you to a real estate agent. We will go over the relevant issues of your file as they relate to writing a successful purchase contract, such as: closing costs required from the borrower, closing costs credits required from the seller, maximum purchase price, down payment funds, and interest rates.

Appraisals

Comprehensive appraisals are required for both home purchases and refinance. An appraisal is an estimated value of a property. It is used by the lender to ensure that the purchase price of the property is reasonable. We hire an independent Appraisal Management Company to prepare the appraisal. Your loan consultant will contact you with the name of the appraisal company. (The appraisal fee may be collected from you prior to the appraisal. The charge for a full appraisal varies, but is typically $400–$600.)

For home purchases, the appraisal will be ordered following the acceptance of the offer. The appraiser will call the seller or listing agent to schedule an appointment. Usually, only the seller and their real estate agent are present during the appraisal. For a refinance, you (the current homeowner) will meet with the appraiser.

Many factors are considered during an appraisal. The appraiser will evaluate the overall real estate market, as well as, recent comparative home sales in the specific neighborhood, and will note upgrades and/or serious potential flaws in the home. On a purchase transaction, you should also have a complete home inspection by a reputable home inspection company or licensed contractor. The appraisal is submitted and requires a satisfactory review by the lender for final loan approval. Our team will provide you with a copy of the appraisal before closing, unless you request it earlier.

Your Credit Score

Establishing and maintaining good credit is imperative if you want to qualify for a mortgage. Generally, you may be able to get a better mortgage rate and more favorable terms by restructuring some of your balances on credit cards, car loans, etc. to improve your credit score.

The most widely used credit scores are FICO scores. Your FICO score runs between 350 (high risk) and 850 (low risk). Past delinquencies, derogatory payment behavior, current debt level, length of credit history, types of credit and number of inquiries are all considered in credit scores. Your score considers both positive and negative information in your credit report. Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your score.

It's virtually impossible to change your score in the time between when most people decide to buy a home or refinance their mortgage and when they apply. We can assist you in an analysis of your credit profile to see if your score can be improved in the short term, but it usually takes some time. Make sure that the information on the credit bureau reports is accurate and up-to-date. Order a copy of your credit report at least once a year. By carefully managing your credit, it's possible to add as much as 50 points per year to your score. Also, you may want to subscribe to a credit monitoring service to insure against identity theft and to receive regular credit reports.

Important Information for Seeking a Mortgage

New Federal funding guidelines require lenders to verify that an applicant's credit profile did not change while the loan was in underwriting. An additional credit report MUST be re-run immediately before closing escrow. A credit refresh is pulled on every conventional loan file within 10 days of closing (does not apply to government loans).

Lenders are required to look for evidence of any of the following actions occurring:

- Application for new credit cards
- Increased balances/minimum payment on existing credit cards
- New credit lines from financing other purchases (autos or other installments)

If the more recent credit report reveals inconsistencies versus the original credit report, the mortgage application is subject to a complete re-underwrite, delays and a possible turndown.

Upon noting changes, underwriters will:

- Recalculate debt-to-income ratios ("DTI") using revised minimum payment figures. If the DTI exceeds Fannie Mae, Freddie Mac or FHA's maximums, the loan will be denied.
- Look at the Credit Inquiry section of your credit report to look for "non-disclosed liabilities". If items are found, the lender will ask for supporting documentation on the inquiry and will use the information to re-underwrite the mortgage.

10 Things You Should NOT Do Before Closing Escrow

01. Increase balances on existing credit cards or apply for new credit (no credit checks should occur during the entire loan process).

02. Purchase a car or shop for a car.

03. Open a new bank account or make large deposits.

04. Transfer funds from one account to another.

05. Shift credit card debt from one creditor to another.

06. Sell major assets.

07. Get married, divorced or go on maternity leave.

08. Go on vacation, making you unavailable to the lender.

09. Borrow money from any source.

10. Change employers or quit your job.

The Title Company

It is the job of the title officer to complete lawful tasks in regards to your home loan. The title company will ensure that the interests of all parties are met. They will collect legal papers and loan documents for signature, collect and disperse funds, and work with your insurance agent to obtain a home owners insurance policy satisfactory to the lender.

You will be provided with a preliminary title report. This is a document prepared by the title division and lists the items of record on your new home. The title division searches public records for any liens against you or your home (previous loans of the sellers to be paid off, tax liens, judgments. It searches the property tax rolls and ensures that the property taxes are paid current.

You will be asked the manner in which you choose to hold title. All records are meticulously maintained in order for the clear title of your home to be transferred to you. You will typically go to the title company office to sign loan and real estate documents and prior to closing, you will be notified of the amount required to be brought to closing. These funds typically must be in the form of a cashier’s check.

Why Do I Need Title Insurance?

Real estate has always been considered an individual's most valuable asset. For most people, it is the most expensive and important investment they will make in their lives. Because it is such an important factor in our society, it is granted unique treatment under the law.

When you purchase a home or other real estate, what you actually acquire is title to the property rather than the land itself. Your title encompasses ownership, use, and possession of the land. However, title to property may be limited by rights and claims asserted by others. Problems with title can limit your use and enjoyment of real estate, and have negative financial consequences. Title defects also threaten the security interest your mortgage lender holds in the property.

Protection against hazards of title is available through a unique coverage known as title insurance. Unlike other kinds of insurance that focus on possible future events and charge an annual premium, title insurance is purchased for a one-time payment and is a safeguard against loss arising from hazards and defects already existing in the title, with extended coverage available to cover certain future events, as well.

Owner's Versus Lender's Insurance

There are two basic kinds of title insurance: Owner's coverage and Lender's (or mortgagee) protection. Owner's title insurance is ordinarily issued based on the amount of the real estate purchase price and may last forever, even after the insured has sold the property, depending on the type of owner's policy.

By contrast, the amount of lender's title insurance is based on the loan amount. Most lenders require mortgagee title insurance as security for their investment in real estate, just as they require fire insurance and other types of coverage as investor protection.

Vesting: How You Hold Title to Real Estate*

Title vesting is the way an owner (or owners) of property takes title to their real estate. The way that title is held will affect what the owner (or owners) can do with the property during his or her lifetime, and will also determine whether or not the property has to go through probate proceedings upon the owner's death.

When a deed is written for real property, the ownership is described using the owner's name and a descriptive phrase for the legal relationship between multiple owners. Vesting decisions will vary from state to state.

There are multiple ways to hold title to real estate, and each method has certain significant legal and tax consequences. Therefore, you are encouraged to obtain advice from an attorney or other qualified professional.

Sole Ownership. When an individual owns property by himself, it is considered to be sole ownership.

Community Property. Community property refers to all real property owned by married individuals (and also domestic partners in the State of California) and is only available in some states. When property is held in this manner, without rights of survivorship, probate proceedings are usually required upon the death of one of the owners unless a survivorship clause exists.

Community Property with Right of Survivorship. Community property law does not apply to all states. Community property refers to the real property owned jointly by married individuals (and also domestic partners in the State of California). Upon the death of one spouse, the property will automatically transfer to the surviving spouse. Probate proceedings are avoided with the vesting choice of Community Property with the Right of Survivorship.

Joint Tenancy. This requires at least two owners. All owners must take ownership of the property in equal percentages. When one owner dies, their interest is divided equally among the surviving owner(s), thus avoiding probate.

Tenants in Common. This type of co-ownership requires at least two owners. Tenants in common own property jointly, each person having the right to will or sell the property. Percentages of ownership can be equal or unequal. In the case of one owner's death, the property will need to go through probate proceedings.

*The information provided for all vesting options are provided for informational purposes only and only as a guide to the different vesting options available. The information provided is not intended as legal advice or legal instruction. Please speak with your own legal professional regarding the best vesting options for you and your family.

Community Property	Community Property with Right of Survivorship	Joint Tenancy with Right of Survivorship	Tenancy in Common
Requires a valid marriage between 2 persons.	Requires a valid marriage between 2 persons.	Parties need not be married; may be more than 2 joint tenants.	Parties need not be married; may be more than 2 joint tenants.
Each spouse holds an undivided 1/2 interest in the estate.	Each spouse holds an undivided one-half interest in the estate.	Each joint tenant holds an equal and undivided interest in the estate, unity of interest.	Each tenant in common holds an undivided fractional interest in the estate.
One spouse cannot partition the property by selling his or her interest.	One spouse cannot partition the property by selling his or her interest.	One joint tenant can partition the property by selling his or her joint interest.	Each tenant share can be conveyed, mortgaged or devised to a third party.
Requires signatures of both spouses to convey or encumber.	Requires signatures of both spouses to convey or encumber.	Requires signatures of all tenants to convey or encumber the whole.	Requires signatures of all tenants to convey or encumber the whole.
Each spouse can devise (will) 1/2 of the community property.	Estate passes to the surviving spouse outside of probate.	Estate passes to surviving joint tenants outside of probate.	Upon death the tenant's proportionate share passes to his or her heirs by will or intestacy.
Upon death the estate must be cleared through probate, affidavit or adjudication.	No court action required to clear title upon the first death.	No court action required to clear title upon the death of joint tenant(s).	Upon death the estate must be cleared through probate, affidavit or adjudication.
Both halves are entitled to a stepped up tax basis as of the date of death.	Both halves are entitled to a stepped up tax basis as of the date of death.	Deceased tenant(s) share is entitled to a stepped up tax basis of the date of death.	Each share has its own tax basis.

Homeowner's Insurance

If you own a condominium or Planned Unit Development (PUD):

Lenders require HO6 coverage (walls in coverage), which generally is not included in the Master HOA Policy. If this is the case, then the borrower must obtain HO6 coverage. You may also want to consider coverage for the contents of your new condominium or PUD.

If you own a house:

For purchase transactions, the first year premium is required to be paid at closing. You will select your own insurance agent and give him/her the name and phone number of your mortgage consultant. Your mortgage consultant will request evidence of insurance from the agent. The premium amount will be included in your closing costs. Similar to the collection of your property taxes, you have two options for paying your homeowner's insurance:

Impounds. Your lender can open an Impound Insurance Account for you, with an initial deposit of one year, plus two months premium payments up front. Thereafter, 1/12th of your annual insurance premium will be included in your monthly mortgage payment amount. The lender will automatically make the annual payment of your homeowner's insurance policy premium.

Please advise your Mortgage Consultant early in the process if you'd like impounds so that the loan documents can be prepared accordingly. Making this selection later in the loan process may result in a "Document Re-Draw Fee" which will be collected from the borrower at closing.

No Impounds. You will receive installment loan statements from your insurance company, which you will be responsible for paying directly.

Property Taxes

Property taxes can be paid in two ways:

Impounds. If your financing has a Loan to Value (LTV) ratio of 80% or higher and is one loan, you have to include your taxes in your monthly payment. If you do a 1st and 2nd mortgage combination, or have a LTV less than 80%, impounds are optional. Many lenders charge extra to not have impounds.

To open an impound account, you will be asked to bring in four to seven months of taxes to escrow as part of closing costs. The Lender will open an impound account and most lenders show the account balance on your monthly statement. Starting with your first payment, 1/12th of your tax bill will be included in your monthly payment. The Lender will pay your tax bill when due. You should also get a copy of the bill from the County. Always check your statements to make sure that the money was deducted from your account. If it wasn't, contact your Lender.

No Impounds. For the first six months (sometimes longer) your tax bill will be based on the prior owner's assessed value. The new bill will be based on the current purchase price. There will need to be an adjustment for the difference in the two assessments, which is called a tax supplement. When the County updates their records, you will receive one bill with the new assessment.

Differences Between Certain States**

Arizona. Property taxes are due twice a year. January 1st–June 30th is due on October 1st of the current year and delinquent on November 1st of the current year. July 1–December 31st is due on March 1st of the following year and delinquent on May 1st of the following year.

California. Property taxes are due twice a year: the 1st Installment is due April 10th and the 2nd Installment is due December 10th. Property taxes are usually calculated at 1.25% of the purchase price (this may vary according to city/county). Your Escrow Officer will give you the accurate percentage.

Colorado. Taxpayers receive their property tax bills after January 1st for the previous year (property taxes are paid in arrears in Colorado). The first installment is due by February 28th. The second half payment is due by June 15th (Supplemental Tax Bill). If the taxes are not escrowed and the borrower pays them they can pay the property taxes in one installment, which is due by April 30th.

Georgia. On Jan. 1, owners receive their property tax amount and then have until April 1 to file for a property tax return. For most Georgia counties, the actual tax submission deadline is Dec. 20, but not for all areas. For example, The City of Atlanta and Fulton County have different deadlines. Property taxes in the City of Atlanta are due before Aug. 15. For Fulton County, property taxes are normally due no later than Oct. 15.

Florida. Property taxes in the State of Florida are for the calendar year and are payable November 1st of that year. If the real estate taxes are not paid on or before March 31st, of the following year, they become delinquent the next day, April 1st.

Nevada. Property taxes are due four times a year: the 1st Installment is due the 3rd Monday in August, the 2nd Installment is due the 1st Monday in October, the 3rd Installment is due the 1st Monday in January and the 4th Installment is due the 1st Monday in March. Tax bills are only mailed once a year.

Oregon. Taxes are levied and become a lien on property on July 1st. Tax statements are mailed by October 25th. Tax payments are due November 15th of the same calendar year. Taxpayers may elect to pay in thirds. If they do so, no discount is allowed, and the first one-third of taxes is due November 15th, the second one-third on February 15th, and the final one-third on May 15th. A discount of 3 percent is allowed if full payment is made by November 15th; a 2% discount is allowed for a two-thirds payment by November 15th. For late payments, interest accrues at a rate of 1-1/3 percent per month (16% per year).

Texas. Tax collection starts around October 1st as tax bills go out. Taxpayers have until January 31st of the following year to pay their taxes. On February 1st, penalty and interest charges begin accumulating on most unpaid tax bills. Tax collectors may start legal action to collect unpaid taxes on February 1st.

Virginia. Personal property tax bills are mailed late summer with payment due October 5 (unless this date falls on a weekend or holiday then the due date is moved to the next business day).

Washington. Payment of property tax bills in Washington is due at the end of April for January to June and at the end of October for July to December in every year.

**The information provided for all tax payments are provided for informational purposes only and only as a guide to the different state tax requirements and time periods due. Tax payments may change pursuant to the state taxing authority. The information provided is not intended as tax or legal advice or tax or legal instruction. Please speak with your own tax and/or legal professional regarding the best strategy for paying tax payments for you and your family.

Tax Write Off***

In order to encourage home ownership, the government allows individuals to deduct home ownership related expenses from your Federal income tax. The expenses are mortgage interest, real estate taxes, and loan origination fees (also known as points).

Income tax rates are graduated. Meaning the rates are higher as your income levels enter higher tax brackets. In order to calculate your tax benefit, multiply the marginal tax rate or the highest tax rate you paid on your federal and state income tax returns. A tax savings scenario would include the following example: On a 30-year, $350,000 loan at 5.5%, the interest in the first year of the mortgage would be $19,132. That $19,132 can be deducted as an itemized deduction before figuring how much tax you owe. The result: You owe less in taxes.

Depending on the loan amount, a first time buyer can usually increase his or her withholding exemptions via the W-4 Form by at least four and still get a refund. This should be taken into account when considering the mortgage you can afford and your tax planning.

***The information provided is for informational purposes only and is not intended as tax advice. Please speak with your own tax professional regarding possible tax write-offs.

Closing Costs

Purchase or refinance transactions require services from several entities, and each one has a fee connected to the services provided.

Recurring/pre-paid costs are not considered fees:

These are the pro-rated dollar amounts of the recurring costs you will be paying during the life of your homeownership, and include: interest, taxes, insurance, homeowners' dues and mortgage insurance.

Non-recurring costs are one-time fees:

- Fees are collected by the title company for handling the transaction and to cover expenses such as notary, messenger, overnight delivery fees, title insurance, escrow and recording fees
- Lender fees are collected to cover the cost of loan origination, the credit report, appraisal, loan processing, loan documents and underwriting fees
- Miscellaneous fees that may also be collected include the costs for property inspections, home warranties and realtor fees

NOTES

To learn more, please visit CommerceHomeMortgage.com. Here you'll find valuable information to better understand the entire mortgage process.

HUD Approved FHA Full Eagle Lender
NMLS ID#1839
www.nmlsconsumeraccess.org

COMMERCE HOME MORTGAGE

16845 Von Karman Avenue, Suite 200
Irvine, CA 92606
833.CHM.0123
commercehomemortgage.com