

# Mortgage Planning Guide

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**It's your biggest  
financial investment.**



**Handle with care.**

# The Mortgage Planning Process

A home mortgage—whether it’s your primary residence, a second home or an investment property—may be the single-largest financial investment in your lifetime. 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 how to get the best mortgage package to meet your unique financial needs.

Receiving the right financial advice and guidance can save you tens of thousands of dollars. You need to work with an experienced loan officer who can educate you about the process, accurately assess your current financial 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. Bank of Commerce 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 refinance or modify your mortgage to enhance your lifestyle. An objective analysis should consider the latest market interest rates, your fluctuating cash flow needs and debts, income and career alterations, family changes (children’s financial 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 financial 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
- ✓ Acquire a bona fide “Pre-Approval” letter from a qualified mortgage professional prior to any house-hunting
- ✓ Evaluate all competitive mortgage products
- ✓ Understand all the terms of your loan

# 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” (for example, a home that might not appreciate in value as competitively, or might not hold as high of a resale value).
- ✓ 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 the most competitive rates available.
- ✓ Keep you informed of your loan status throughout the entire process.
- ✓ Communicate with your Real Estate Agent.

## Your Role:

- ✓ Communicate with your Real Estate Agent about your expectations, questions and concerns.
- ✓ Meet with your Mortgage Consultant to discuss your long and short term financial and investment goals and obtain a Pre-Approval Letter as early in the process as possible.
- ✓ During the early stages of the loan process, provide all the documentation that is requested for the loan as fast as possible.
- ✓ Be available for decision-making processes, and ensure that your schedule is flexible for final document signing three to five days before the closing date.

## The Life of a Loan

1. Fill out and sign the loan application. Supply all supporting documentation.
2. Initial disclosures sent to borrowers.
3. Credit is ordered with your authorization.
4. Appraisal ordered (you will likely pay the Appraisal Management Company directly).
5. Preliminary Title Report ordered.
6. Loan submitted to Underwriting.
7. Conditional Loan approval – all conditions will be gathered from the client and submitted to the underwriter.
5. Conditions approved and accepted by lender.
6. Estimated closing costs verified by the title company to ensure that we meet expectations.
7. Your loan documents will be ordered and submitted to the title company for signature. Clients and Realtors are called. Final credit check.
8. Loan documents - we will confirm the date docs arrive and notify you. Your Realtor or the title company will call you to setup an appointment to sign the documents. You may sign a Power of Attorney, if needed.
9. Docs signed - once docs are signed, they will be sent to the lender.
10. Loan is funded.



## Choose the Right Mortgage Package

Bank of Commerce Mortgage is known as the “bank of choice”™ because we offer multiple fixed and adjustable interest rate (ARM) programs including Jumbos, FHA, VA, Reverse Mortgages 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.

Based upon our in-house capital strength and working relationships with the nation’s biggest lenders, Bank of Commerce Mortgage offers highly competitive interest rates. Over the last 15 years, we have processed thousands of loans worth billions of dollars throughout the Western United States.

## Pre-Qualification & 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, Bank of Commerce Mortgage will approve your loan subject to verification of your income and source of downpayment 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
- ✓ Interest rates

## Appraisals

Comprehensive appraisals are required for both home purchases and refinances.

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. 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.

### How Your Credit History Is Weighted:

#### **35% – Specific payment history**

Paying debt on time and in full is very important. It's never a good idea to take on more credit than you can handle.

One of the most important issues is whether you have had late payments in the last 12 months. Timely mortgage payments are weighted heavily by the scoring systems and are one of the most vital requirements when evaluating your credit history.

Late payments, judgments, charge-offs, collection accounts and bankruptcies have a negative impact. If you have had any judgments within the last few years, it is very important that you pay them off and get a "satisfaction of judgment" from the court. Usually, judgments and liens must be paid prior to closing although sometimes they can be paid out of the loan proceeds.

#### **30% – Current level of indebtedness**

Keeping your credit balances below 50% of your available limit is very important. Keeping your balances below 30% of your available credit is even better.

The credit scoring system looks at the percentage of debt you owe vs. your

overall credit lines, not the amount of credit that you have available. For this reason, it is better to leave your credit accounts open when applying for a loan, even if you do not use them. By not using the credit available to you, the system positively regards you as having the financial restraint and discipline not to overload on debt.

**15% – The length of time your open credit has been in use**

The longer your accounts have been opened and paid promptly, the higher your score will be. Again, do not close your credit accounts unless absolutely necessary. If you have more than six credit cards and feel you must close some unused ones, close the newest ones. Use the cards you have at least once every six months to keep them in “active” status.

If you don’t have much credit history and would like to get a mortgage at some point, it is a good idea to establish a few open credit lines. Although newly opened accounts can lower your score initially, they will improve your score once they have been open for awhile, have some use, and then are paid off in full.

**10% – The types of credit that are available to you**

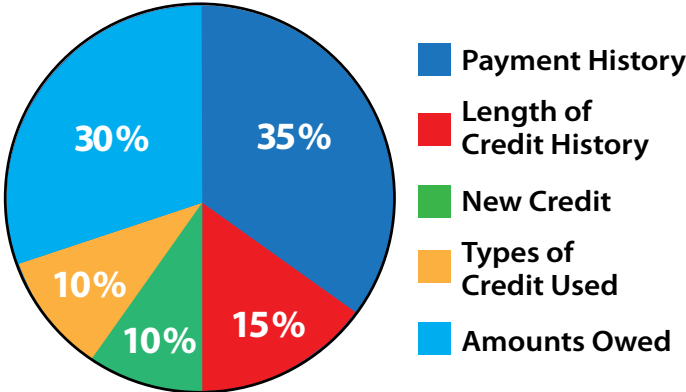
A good mixture of auto loans and leases, business loans, credit cards, mortgages and equity lines are preferred. Having a high concentration in credit cards only can hurt this score.

**10% – Pursuit of new credit and requested credit scores**

Inquiries affect your score for one year from the time the inquiry is made. Personal inquiries do not count toward your score – so you can check your credit report as often as you like. The score is only affected if a potential creditor checks your credit. Potential creditors include credit card companies, auto finance companies, department stores and mortgage companies.

The reason inquiries impact your credit score is because the scoring system assumes that if you have many recent inquiries, you must be strapped for money and are trying to get credit wherever you can find it.

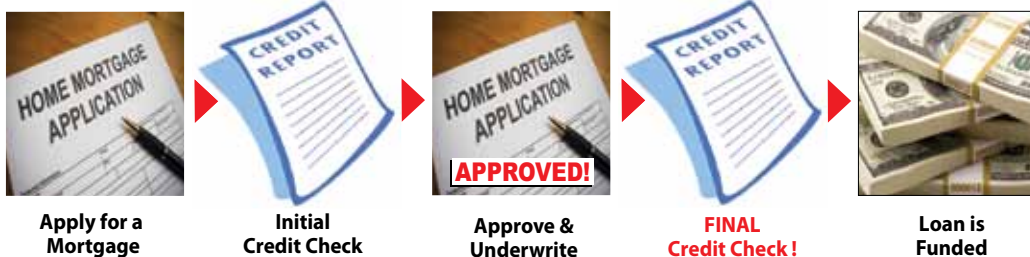
The credit system also assumes that all these inquiries will eventually result in new accounts being opened. The system doesn’t like you to open new accounts and punishes you by giving you a lower credit score.



# **Beware!**

## **A Last Minute Credit Check is now Required!**

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.



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

- ✓ 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 turnaround.

**For valuable information about how credit scores are developed, visit:**

### **Fair, Isaac and Company (FICO)**

200 Smith Ranch Rd., San Rafael, CA 94903 • (415) 472-2211  
www.fairisaac.com

### **Credit bureaus:**

#### **Experian (XPN)/Fair Isaac Score**

PO Box 9601, Allen, TX 75013 • (888) 397-3742 • www.experian.com

#### **Equifax (EQ)/Beacon Score**

PO Box 105873, Atlanta, GA 30348 • (888) 841-7335 • www.equifax.com

#### **TransUnion (TUC)/Empirica Score**

PO Box 4000, Chester, PA 19016 • (888) 887-2673 • www.transunion.com

## **The Top 10 Things You Should NOT Do Before Closing Escrow**

*If any of these items should occur, please advise your loan officer immediately.*

10. Increase balances on existing credit cards or apply for new credit (no credit checks should occur during the entire loan process!)
9. Purchase a car or shop for a car
8. Open a new bank account or make large deposits
7. Transfer funds from one account to another
6. Shift credit card debt from one creditor to another
5. Sell major assets
4. Get married, divorced or go on maternity leave
3. Go on vacation...making you unavailable to the Lender
2. Borrow money from any source
1. 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 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, judgements). 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 (see the attached matrix for options). 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 of funds required to be brought to closing. These funds typically must be in the form of a cashiers check.

*Note: Title and escrow services are typically performed by the same company in Northern California and Nevada. In other areas, these services may be performed by two separate companies or by an attorney. The Statement of Identity is a form requesting detailed information about your personal history and is required to ensure that the title to the property is accurately recorded upon close of escrow.*

## 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 vs. 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.

## **Eliminating the Risk**

An integral component of title insurance is its emphasis on risk elimination before insuring. This assures that the policy holder has the best possible chance for avoiding title claim and loss.

Title insuring begins with a search of title records for matters affecting the title to the real estate concerned. The examination of evidence from a search is intended to fully report all material objections to the title. Frequently, instruments that don't clearly pass title are found in the title "chain" (or history) of ownership assembled from the records in a search. These need to be corrected before a clear title can be conveyed. Some examples of instruments that can present concerns are: outstanding mortgages, judgements, tax liens, deeds, mortgages, wills and trusts that contain improper vestings, incorrect notary acknowledgments and easements.

Through the search and examination, title problems like these are disclosed so they can be cleared up whenever possible. But even the most careful investigation cannot locate all hidden defects of title.

## **Hidden Defect - Dangerous Consequences!**

In spite of all the expertise and dedication that go into a search and examination, hidden defects can emerge after completion of a real estate purchase, causing an unpleasant and costly surprise. Some examples are previously undisclosed heirs with claims against the property, a forged deed that transfers title to the real estate, instruments executed under an expired or fabricated power of attorney, and mistakes in public records.

## **Insist on Title Insurance**

Thanks to title insurance, home buyers can enjoy protection against many title claims and potential losses. When title insurance is provided, lenders are willing to make mortgage funds available in geographic areas where they know little about local market conditions. Title insurance policies offer unique safeguards that are essential for secure investments by both real estate purchasers and lenders.

Bottom line: Make sure you are fully protected.

## Vesting – Two Common Ways To Hold Title

Before you reach the closing day, you have to make a decision as to how you will “hold title” to the property. This decision has legal, tax and estate planning ramifications. Therefore, it is prudent to consult an attorney or certified public accountant (CPA). Some lenders or states restrict how the borrower is allowed to hold title.

	Tenancy in Common	Joint Tenancy
<b>Parties</b>	Any number of persons (can be husband and wife)	Any number of persons (can be husband and wife)
<b>Division</b>	Ownership can be divided into any number of interests, equal or unequal	Owner interests must be equal.
<b>Title</b>	Each co-owner has a separate legal title to his or her undivided interest.	There is only one title to the whole property.
<b>Possession</b>	Equal rights of possession.	Equal rights of possession.
<b>Conveyance</b>	Each co-owner has a separate legal title to his or her undivided interest.	Conveyance by one co-owner without the others will break that individual’s joint tenancy.
<b>Purchaser’s Status</b>	Purchaser will become a tenant in common with the other property co-owners	Purchaser will become a tenant in common with the other property co-owners
<b>Death</b>	Upon co-owner’s death, his or her interest passes by will to that person’s devisees or heirs. No survivorship right.	Upon co-owner’s death, his or her interest ends and cannot be disposed of by will. Survivor owns the property by survivorship.
<b>Successor’s Status</b>	Devisees or heirs become tenants in common.	Last survivor owns property in severalty.
<b>Creditor’s Rights</b>	Co-owner’s interest may be sold on execution sale to satisfy his or her creditor. The creditor becomes a tenant in common.	Co-owner’s interest may be sold on execution sale to satisfy his or her creditor. Joint tenancy is broken; creditor becomes tenant in common.
<b>Presumption</b>	Favored in doubtful cases except in husband and wife cases.	Must be expressly stated. Not favored.

# Homeowner's Insurance

## 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.

## 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:

### 1. 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.

### 2. 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:**

## **1. 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.

## **2. 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. The Lender may not pay supplemental bills.

## **Differences Between Certain States:**

**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.

**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.

**Colorado:** Taxpayers receive their property tax bills after January 1 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 15 (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. If your payment is LATE, penalty interest is added to the tax amount.

*Note: Check with your Loan Officer to verify the specifics for your state.*

## 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.

Note: You should consult with your CPA or tax attorney for more specific information. \*Sometimes home improvements are tax deductible as well.



# Closing Costs

Purchase or refinance transactions require services from several entities, and each one has a fee connected to the services provided. There are two types of fees included in your closing costs:

## **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 (when applicable).

Interest will be paid from the day of closing until the end of the month, on a per diem basis.

Insurance is collected one year in advance for purchases. For refinances, the Lender will verify that your home owner’s insurance policy is current.

Property Taxes will be pro-rated for the current period, and impounds (if selected) will be collected.

Homeowner’s Association Fees are pro-rated and collected for purchase transactions.

Mortgage Insurance, when applicable, is collected.

## **Non-Recurring Costs are one-time fees.**

Title fees are collected by the Title Company for handling the transaction and to cover such expenses such as notary, messenger and overnight delivery fees.

Title fees are collected to cover the cost of Title Insurance and Government Fees such as Recording.

Lender/Broker fees are collected to cover the cost of loan origination, the credit report, appraisal, loan processing and underwriting.

Miscellaneous fees that may also be collected include the costs for property inspections, home warranties and real estate processing.



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