# Mortgage Basics

When you take it step-by-step, you'll realize that your dream home is closer than you think. Let's get started.

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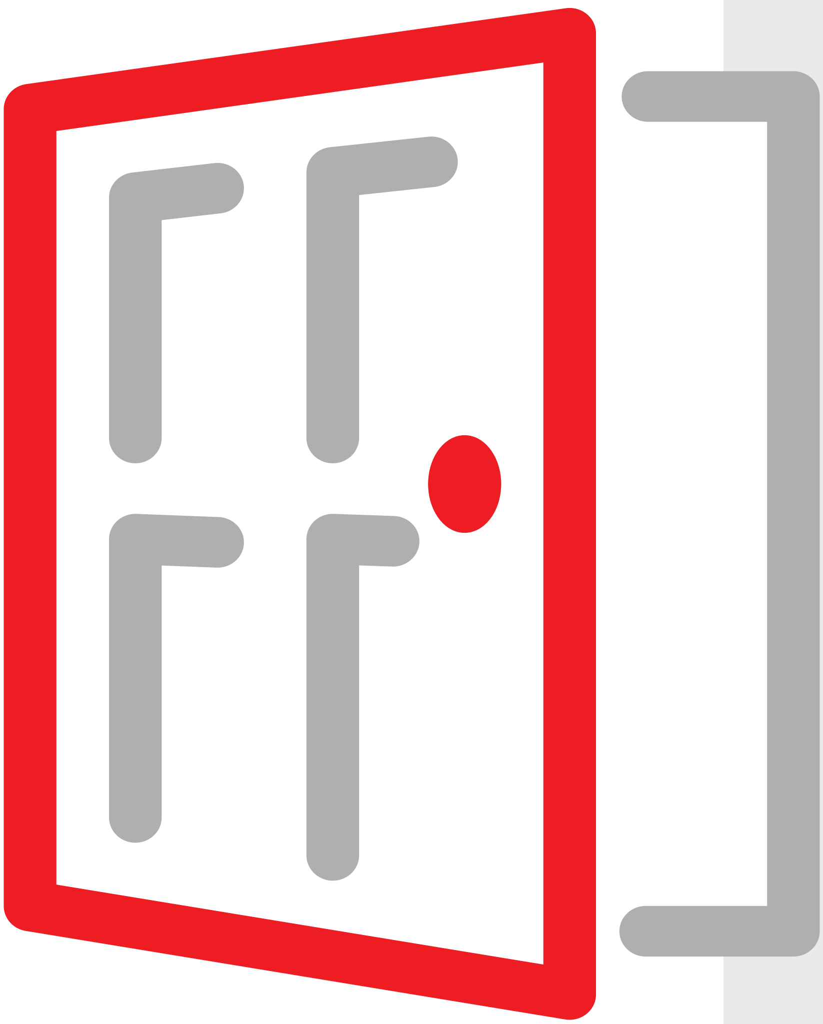
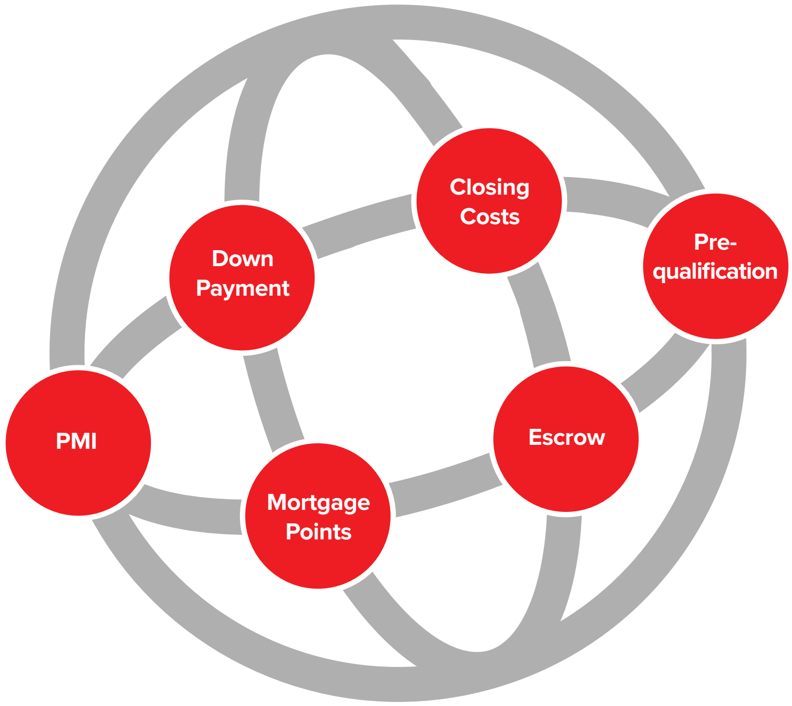
# Table of Contents



# Introduction




**Buying a home for the first time can be one of the most thrilling experiences of your life. Less thrilling is figuring out how you'll finance that large purchase.**

Applying for a home mortgage can feel intimidating even to the most experienced buyers, but it remains the most common way people pay for a home nationwide.

Chances are, many of those buyers have the same questions that you do. Knowing that you're walking the same path that others have before can be reassuring. It also helps to have a guidebook or map, and that's exactly what we're providing here.

In this guide, we'll explain the basics of getting a mortgage — things like down payments, closing costs, escrow, PMI, mortgage points, and prequalification. We define all the tricky terminology, giving you the knowledge and confidence to glide through the loan process with ease. We'll even break down the process of how to get prequalified for a mortgage before you start shopping for a home.

## According to the National Association of Realtors:

**88% of buyers take out a loan to purchase a home.[1]**

**98% of buyers age 37 or younger finance their home purchase.[1]**

# Mortgage Process Timeline

Applying for a mortgage may seem like a big step to take, but when you separate the process into bite-size pieces, it’s less intimidating.

While the average time from formal loan application to closing day[1] for homebuyers ranged from 43 to 51 days between January 2019 and May 2020, there are a few steps you need to take before you begin your formal application. These steps will add to your total timeline.

## Budget [One Week]

Before you apply for a mortgage, it's best to start by understanding your own current financial situation.

- Evaluate your finances.
- Check your credit report at **AnnualCreditReport.com**.[2]
- Determine what would be a comfortable housing payment for you.
- Consider sources of cash for your **down payment.**

> TIP
>
> **Financial experts typically recommend that you spend no more than 30% of your income on your housing payment.**

## Loan prequalification [One Week]

Before you start shopping for a home, you should get prequalified for a mortgage. This will tell you how much the bank is willing to lend you — and how much you can spend on a home once your down payment is factored in.

- Gather your **financial documents (pay stubs, W2, tax returns, bank statements).**
- Consult your loan originator about **loan options.**

> TIP
>
> **A loan prequalification is important for two reasons:**
> **1) You'll know what housing price range you can shop in; and**
> **2) Sellers will know you're serious and qualified to buy, which is especially important in a competitive housing market.**

## Find a home and get your offer accepted [Average: 10 Weeks]

Armed with your prequalification, you can begin seriously shopping for a home that matches your dreams and your budget.

- Shopping for a home and making an offer can take as little as a week and as long as several months. The average time it took buyers to search and get an offer accepted was 10 weeks, according to the National Association of Realtors' **2019 Profile of Home Buyers and Sellers.**[3]
- Your loan **prequalification will typically last 30 to 60 days** — or perhaps 90 days depending on your lender — so you will need to get a new prequalification letter if you're still shopping after it expires.[4]

> TIP
>
> **You may want or need a new loan prequalification if your situation changes, such as a job or income shift that could mean you can shop for a more expensive home. Formal loan application [One Week] Once you have an accepted purchase offer on a house, it's time to start a formal loan application.**

- Choose your loan program **fixed or adjustable rate,** 15 or 30 years, conventional, or FHA
- Provide details of any gifts or loans for the down payment.
- Ask your lender about when to **lock in your rate,**[5] which means your rate can't change during the rate lock period. However, your interest rate could change before closing unless you pay for an interest rate lock extension.

1 week | 10 weeks | 2-4 weeks | 2 weeks | closing day

- Within three days after your loan application, your lender will provide you with a Loan Estimate that breaks down your total financing costs.

## Loan processing [Two to Four Weeks]

- Your lender will order an **appraisal** on the home to establish the value of the property.
- Your lender will request a title search to check for liens and legal ownership.
- You can hire a **home inspector** to verify the home's condition.

TIP

**Your lender will typically lock your rate for 30 to 60 days so you can be confident that it will be the same on your closing day.**

## Loan underwriting [Two Weeks]

- Your lender will verify your job history.
- Your lender will review all your financial documents.
- Expect another check on your credit score and credit report.

TIP

**A lender's title insurance policy is required for loans, and experts recommend that you purchase optional owner's title insurance[6] to protect your investment in your home.**

## Closing day

- At least three days before the closing you'll receive a Closing Disclosure to review.
- **Closing costs** range from 2% to 7% of the purchase price of the house. The average is 3%.
- If escrow is required, your lender will set up an **escrow account** to pay your property taxes and homeowners insurance premiums.
- At the closing, you can review your **amortization table** so you can understand how your loan payments will work over time.

TIP

**Avoid taking on new debt until after your loan closes to reduce loan delays or denials.**

**The Consumer Finance Protection Bureau[7] warns that scammers try to take advantage of buyers by emailing fraudulent wiring instructions.**
**Don't respond to an email asking for funds until you check by phone with your title company to make sure it's legitimate.**

# What is a down payment?

A down payment is money you pay upfront toward the purchase of a home. Your down payment combined with your mortgage cover the full purchase price of the home. Down payments are usually expressed as a percentage of the home's price. For example, a 5% down payment on a home that costs $200,000 would be $10,000. The mortgage would cover the remaining $190,000.

Many new home buyers are intimidated by the idea of saving up a large chunk of money for a down payment, but as you'll see below, there are ways to overcome this hurdle.

## Is a down payment required?

The down payment offers the lender some assurance that you are committed to paying for the house over time. It also provides you an incentive to keep making monthly payments so that you don't lose your investment.

Most lenders require that you pay between
**3%–20%**
of the home's purchase price as a down payment.

**There are a few exceptions**[1] to the down payment requirement, such as VA loans (for veterans and active military), USDA Rural Development loans, and state or city affordable housing programs. Ask your lender about these options and whether you meet the criteria for a zero down payment loan.

## How much down payment should I pay on a house?

Many financial experts used to recommend that you put 20% down to purchase a home. Plus, buyers who pay 20% or more as a down payment avoid having to pay for **private mortgage insurance (PMI)**. However, recent data shows that the **majority of home buyers put less than 20% down.**[2]

Some lenders offer lower down payment options to first-time home buyers. Buyers with **credit scores** of at least 620 may qualify for **FHA loans**[3] (loans insured by the Federal Housing Administration), which only require a minimum of 3.5% down. FHA loans are not limited to first-time home buyers, and there is no minimum income requirement to qualify. There are limits to how large the FHA loan can be, and those limits vary by state and also change from year to year and vary by location. Ask your lender for more details.


*The more money you pay up front, the lower your monthly loan payment will be.

## What can I do if I don't have money for a down payment?

A down payment can come from many sources, including your own checking and savings accounts, investment accounts, or gift money from family members. If you're gifted the money for a down payment, you'll have to show documentation that the money was indeed a gift and does not need to be repaid.

Still don't have the money? Experts have highlighted some other **creative ways**[4] to gather money for a down payment, including employer-sponsored housing assistance programs, crowdsourcing a down payment in lieu of wedding gifts, and government assistance programs.

If you have questions about down payments for a mortgage, **please contact a Synovus mortgage originator near you.** We're here to help you on your path to homeownership.

**Learn more about our mortgage options**

TIP

**Don't let the down payment scare you away from home ownership. There are many ways to overcome the cash hurdle. Ask your lender for options.**

# What are closing costs?

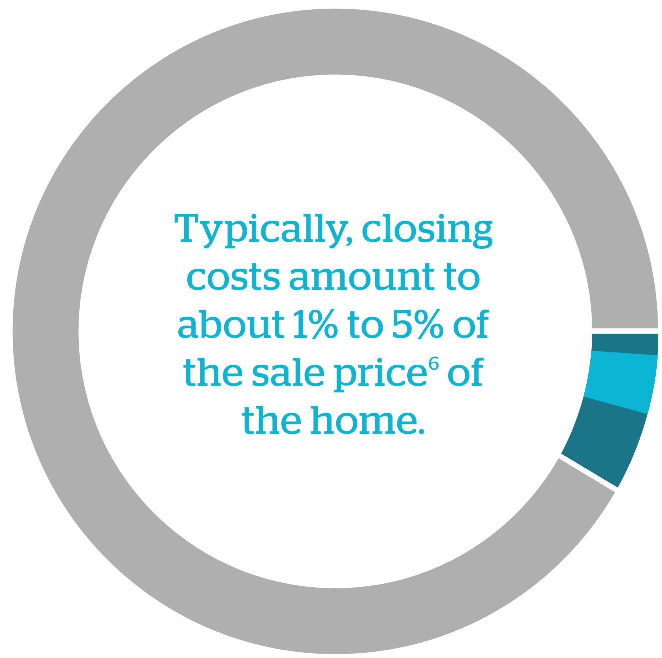
In addition to the down payment, there are other out-of-pocket expenses associated with buying a home, such as closing costs. These are fees that are paid at the closing of a real estate transaction. Closing costs may be paid by either the buyer or the seller (or a combination of both) and include costs such as appraisal fees, administrative fees, and application fees.

## Typical closing costs

Typical closing costs for an average-priced home range from 1% to 5% of the home's price, depending on the state you buy in. That's according to a **2019 report by ClosingCorp**,[1] a company that provides residential real estate closing cost data to the mortgage and real estate services industries.

For example, ClosingCorp found that the average sales price for single family homes in Georgia for 2019 was $231,593, with closing costs (including taxes) averaging $3,658 — or 1.58%. During that same year, the average sales price for a single-family home in Florida was $280,389, with closing costs (including taxes) averaging $6,457 — or 2.30%.

Since closing costs will vary based on the size of your down payment, the sales price of your home, and the city and state you're buying in, you can try **this handy calculator from SmartAsset**[2] to estimate your actual closing costs.



## Typical fees including in closing costs

Before the real estate closing date, your lender will provide you with a Closing Disclosure, which provides an itemized list of fees and outlines who is responsible for paying them. Occasionally, motivated sellers will pay all or a portion of closing costs to assist the buyer.

- **Title Insurance:** This insurance protects the homeowner and the lender in case someone challenges your ownership of the home.
- **Notary Fee:** This covers the cost of a notary witnessing and certifying the signatures on all the closing documents.
- **Wire Fees:** Any bank wire transfers (such as wiring the down payment to the lender) may incur a fee.
- **Courier or Delivery Fee:** This covers the cost of transporting your documents via a courier service so that the mortgage loan can be processed in a timely manner.
- **Attorney Fee:** In some states, an attorney must review all the closing documents before the real estate transaction can be completed.
- **Mortgage Points (also known as Discount Points):** This is an optional fee that some buyers pay to the lender in exchange for a reduced interest rate on the loan (one point costs 1% of the loan amount). To learn more about mortgage points, **see page 14**.
- **Recording Fee:** This fee is paid to your city or county recording clerk's office for documenting the new owner of the property.
- **State, County, or City Transfer Taxes:** In some locales, a tax is collected when property changes ownership. The amount is set by the state or local government.
- **Hazard Report:** Some states require that you obtain a disclosure or report from a third party to determine if the property falls in a hazard zone, such as a flood zone, earthquake area, or wildfire risk zone.
- **Home Inspection or Appraisal:** If the buyer doesn't pay for these items at the time the service takes place, they may be rolled into the closing costs.

Some government-sponsored loans offer reduced closing costs or allow you to roll your closing costs into the loan. Be sure to talk with your lender if you have any questions about closing costs.

In addition to one-time closing fees, you may have to prepay some other costs at closing, such as your homeowner's insurance, county property tax, or fire/flood insurance. These fees may be placed in an **escrow account.**

**Learn more about our mortgage options**

TIP

**When saving to buy a home, don't forget to set aside some money for closing costs. These expenses are required in addition to your down payment.**

# What is an escrow account?

Escrow is a concept that can confuse even the most savvy home buyers. Here are answers to the most frequently asked questions about escrow accounts.

## 1. What is an escrow account?

An escrow account is an account where your lender holds money that you've pre-paid toward your annual property taxes and homeowner's insurance. Your lender uses this money to pay these bills for you when they're due. Using an escrow account guarantees that these payments are made on time — which protects both you and the bank's investment in your home.

## 2. How does an escrow account work?

An escrow account works in tandem with your mortgage payment. If you have an escrow account, you will make one monthly payment to your mortgage company that covers the home loan monthly principal and interest, homeowner's insurance, property taxes, and **private mortgage insurance (PMI)**, if you have it. The monthly escrow payment is approximately one-twelfth of your yearly tax and insurance costs. When those payments come due, the mortgage company pays them on your behalf out of your escrow account.

## 3. How do I keep track of my escrow account?

**On your mortgage statement, you'll notice that your payment is broken down into categories:**

- Your loan principal, which pays down your mortgage debt.
- Your loan interest.
- Your monthly escrow payment for your taxes and homeowners insurance, as well as private mortgage insurance if required.

The statement will also show your escrow account balance from month to month. Every year or so, your lender will evaluate your escrow payment to make sure that it adequately covers your insurance and property tax costs. If you have any questions about your escrow account payments or balance, talk with your lender.

| | | |
|---|---|---|
| JANUARY<br>The monthly escrow payment is approximately<br>1/12<br>of your yearly tax and insurance costs | FEBRUARY | MARCH |
| APRIL | MAY | JUNE |
| JULY | AUGUST | SEPTEMBER |
| OCTOBER | NOVEMBER | DECEMBER |

## 4. Why do I need an escrow account?

Most lenders require you to have an escrow account as part of the terms of your loan. It protects you by having you pay small amounts each month toward these larger annual bills. That way you won't have to scramble to pay a large bill once each year — and you can rest assured that the payments are made on time by your mortgage company.

If your lender doesn't require you to have an escrow account, you'll have to pay your property tax and homeowner's insurance in full when they come due each year. These payments often amount to thousands of dollars, which can be a financial burden to homeowners. If you don't pay them on time, you'll face consequences in the form of penalties, fines, or loss of insurance coverage. In extreme cases, unpaid taxes can lead to a **lien**[1] on your home.

## 5. How much money is in an escrow account?

The amount of money held in your escrow account is an estimated total to cover your annual property taxes, homeowner's insurance, and private mortgage insurance (if applicable). Before you sign the paperwork to purchase your home, your lender will estimate these amounts based on county tax records and quotes from insurance providers. In addition, some lenders will hold a little extra money as a cushion, in case your taxes or insurance premiums are higher than expected.

**Learn more about our mortgage options**

### DID YOU KNOW?

**An escrow account makes it easy to manage your property taxes and insurance payments, since the bank makes these payments for you when they're due.**

# What is PMI?

Private mortgage insurance (PMI) is a type of loan insurance that some lenders require buyers to have. This insurance protects the lender if the buyer defaults on the loan. PMI is typically required if you have a conventional mortgage loan and your down payment is less than 20% of the home's purchase price.[1]

Not everyone has enough cash on-hand to make a 20% down payment on a home. When a buyer pays a smaller down payment, the lender assumes more risk by funding a larger loan. PMI helps protect the lender from losing money if a buyer is unable to make mortgage payments, and the home goes into **foreclosure.** The upside for the buyer is that PMI can help you qualify for a mortgage loan with a lower down payment. It's a safety net that allows many buyers to enter the market who otherwise may not have been able to purchase a home.

## How much is PMI?

PMI fees will vary according to your location, the amount of your down payment, and your credit score.

**In general, PMI fees range from**
**0.3%–1.5%**
**of the original loan value per year.[2]**

For example, if you buy a $200,000 house and can't afford to put 20% down, you might pay between $600 and $3,000 per year in PMI (or between $50 and $250 per month). Once you have at least **20% equity in your home**[3] — that is, the outstanding loan balance is no more than 80% of the home's current value — you can request that your lender cancel the PMI requirement. Most buyers only pay PMI for the first five to seven years of the loan.

## How to pay for PMI

You pay for PMI as part of your monthly **escrow payment**. That means in addition to paying your property taxes and homeowner's insurance into your escrow account, you also pay your monthly PMI fee into the escrow account. Because the escrow payment is combined with your regular monthly mortgage payment, you only have to make one payment each month.

## Most buyers only pay PMI for the first five to seven years of the loan.

## How to avoid paying for PMI

You can avoid paying for PMI by making a down payment of at least 20% of the home's purchase price. If that's not possible, there are other ways to avoid PMI. For example, some buyers opt for a **"piggyback" loan.**[4] In this situation, the buyer takes out a second mortgage or home equity loan at the same time as the first mortgage. The first mortgage covers 80% of the purchase price of the home, the "piggyback" loan covers 10%, and the buyer pays the remaining 10% as a down payment (this is also known as an 80-10-10 loan). You can also do a piggyback loan with a larger down payment, so that the first loan covers 80%, the second loan covers 5%, and you pay the remaining 15% down (80-5-15 loan).

Talk with your lender about these options. Or, if you don't have a lender, feel free to **contact a Synovus mortgage originator near you.**

**Learn more about our mortgage options**

TIP

The upside of PMI for buyers is that you can qualify for a mortgage loan with a lower down payment.

# What are mortgage points?

Mortgage points are fees that you pay to the lender at closing. Points are paid in addition to your down payment and closing costs. There are two types of mortgage points — origination points and discount points.

**Origination points** (also known as origination fees) are fees that cover some of the lender's costs for providing your home loan. Each origination point costs 1% of the loan amount. The number of origination points you are charged will vary with every mortgage loan. Ask your lender for more details.

**Discount points** are different. They offer a way for you, the buyer, to prepay some of the interest on your home loan. With discount points, you pay an upfront fee in exchange for a lower interest rate on your loan. Purchasing one discount point will lower your overall loan interest rate by a fraction of a percent. The exact reduction varies from lender to lender.

**In most cases,**
**1 discount point = .25%**
**reduction in interest.[1]**

You can purchase one, two, or more discount points, depending on what your lender offers. In some cases, you can also purchase half of a discount point.

## Are mortgage discount points worth the cost?

With discount points, you're essentially paying cash today in exchange for future savings. The points reduce your interest rate, which reduces the amount of interest you'll pay over the life of the loan. Using points also reduces your monthly mortgage payment.

It makes sense to pay for discount points if you expect to own your house long enough to reach the break-even point — that is, the point in time when the total amount of money you've saved through the reduced interest rate equals the amount you paid up front for the discount points. This date will vary depending on how many points you buy and the amount your interest is reduced, so be sure to ask your lender when your break-even point would be.

It doesn't make sense to purchase discount points if you need that cash for the **down payment** or moving costs, or if you only plan to live in the home for a few years and will never reach the break-even point.

## How mortgage discount points work

To see how points can work in your favor, consider this example: Let's say you have a $200,000 mortgage at an interest rate of 4%. Your monthly mortgage payment would be approximately $955 every month (principal and interest — not counting **escrow** costs). But if you buy one mortgage discount point for $2,000 upfront, your interest rate would drop to 3.75%, which lowers your payment by about $29 per month. To calculate the break-even point, divide the amount you paid for the discount points (in this case, $2,000) by the amount of money you save per month (in this example, $29).

In this example, you'd reach the break-even point if you own the home for at least five years and nine months, or 69 months ($2,000 ÷ $29). From that point forward, you'd save money every month. By the end of a 30-year loan, the total savings (after the break-even point) would add up to more than $8,400. This is just one example. Your lender can show you exactly how mortgage discount points will impact your loan.

**To calculate the break-even point:**

the amount you paid for the discount points

÷

the amount of money you save per month

**From that point forward, you'd save money every month.**

**TIP** Discount points can be bought in many increments, including half points. Ask your lender what types of discounts are offered for your loan.

# Understanding different types of mortgages

Deciding to buy a home is an exciting milestone. But many home buyers struggle with the next step — choosing the right type of mortgage loan. Depending on the type of loan you choose:

- You may need a 10% minimum down payment — or you may not need to put down any money at all.
- Some loans aren't an option if you lack a strong credit score.
- Loans with more flexible borrowing requirements may have income limits, while others won't.

Here's a guide to help you understand the various types of mortgage loans.

## 1. Conventional loans

The most common type of mortgage is a "conventional" loan, which is any mortgage not insured by or **sponsored by the U.S. government.**[1] These loans go through conventional channels — that is, financial institutions — for approval.

Because conventional loans are not guaranteed by the government, they can be more challenging to qualify for. Financial institutions will **consider your income level, credit score, debt, and how much cash you have for a down payment**.

There are two types of interest rate terms offered on conventional loans:

- **Fixed-rate mortgages** offer an interest rate that is unchanged for the life of the loan, so your monthly principal and interest payment remains the same for the life of the loan. In other words, no surprises.
- **Adjustable-rate mortgages** (also known as ARMs) offer a fixed interest rate only for a designated period of time (usually 3, 5, or 7 years). Once the fixed-rate period ends, the rate will be adjusted (typically yearly) to reflect prevailing mortgage interest rates. ARMs typically offer **lower initial interest rates than conventional loans.**[2] However, rates — and therefore your monthly payment — may go up or down over time, depending on future interest rates.

## 2. FHA loans

A Federal Housing Administration (FHA) loan[3] is a government-backed, fixed-rate mortgage loan. FHA loans are provided through banks that have met the requirements set forth by the Department of Housing and Urban Development.[4]

FHA loans were created to make it easier for lower- to middle-income buyers to purchase homes.[5] The standards for qualifying for an FHA loan are typically less stringent than conventional loans, because the loan is insured by the government. With FHA loans, borrowers can put as little as 3.5% of the purchase price as the down payment. Borrowers are required to pay for the FHA mortgage insurance, but it can be rolled into the loan.

## 3. VA loans

The U.S. Department of Veteran Affairs (VA)[6] also has its own home loan program. Available to veterans, active military, and eligible spouses, VA loans are government-sponsored, mortgages that allow qualified borrowers to purchase a home with no down payment.

To qualify, you have to meet the military service requirement plus debt-to-income requirements[7] The loans are provided by private lenders, but because the government guarantees them, the lender is able to provide borrowers with more favorable interest rates and financing of up to 100% of the value of the home. VA loans don't require mortgage insurance, but they may require an additional fee to process the loan.

## 4. USDA mortgages

The USDA has a rural housing service[8] that provides fixed-rate mortgage loans to borrowers who live in rural areas, as defined by the USDA.[9] These loans offer favorable interest rates and a zero down payment option to buyers with low to moderate incomes. Income thresholds vary by region and household size.[10] This type of loan is designed to help the rural economy and assist buyers who might not otherwise qualify for a mortgage. USDA loans are not limited to first-time homebuyers.

## Narrowing it down

While there are a variety of mortgage loan options, you don't have to make this decision on your own. For help figuring out which mortgage loan is best for you, get in touch with a Synovus mortgage originator today. We're here to help you get the financing you need to purchase your next home.

**Learn more about our mortgage options**

# How do I get prequalified for a mortgage?

Before you start shopping for your dream house, you'll want to be sure you can get prequalified for a mortgage. To get that prequalification, you'll need to prove to the bank that you're financially prepared to take on a mortgage loan and are able to make the monthly payments.

When evaluating candidates for mortgages, lenders look at items such as your credit history, proof of income, debts, and any assets you may have (such as retirement accounts). So, before you fill out the mortgage application, take some time to ensure that all these items are in good order. Here's an overview of what it takes to get prequalified for a mortgage.

## 1. A solid credit score

Your credit score is a three-digit number that reflects how well you've managed your debts in the past. It takes into account the types of credit you have, how long your credit history is, how much debt you have, and whether you've made payments on time. Scores range from 300 to 850, with 850 being a perfect credit score. The minimum credit score required for a mortgage loan varies from lender to lender. An exception is an FHA mortgage, which is insured by the federal government and can be approved for buyers with credit scores of 500 or above.[2]


FYI

**A good benchmark is a credit score of 660 or above.[1]**

## 2. Steady income

You'll also need to show lenders that you have reliable income. You can prove your income with pay stubs, W-2 forms, and tax returns. The amount of money you make in income will help determine how much house you can afford (see number six below). Steady income ensures that you can make your monthly mortgage payment on time and still have room in your budget to cover all your other expenses, such as food and utilities. For self-employed buyers or those with variable income (for example, someone who works on commission), you'll have to show additional documentation,[18] such as tax returns and 1099 forms, to prove that you make enough to cover a house payment over time.

## 3. Cash for a down payment

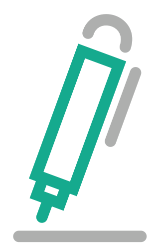
Most mortgage loans require that you pay between 3% and 20% of the purchase price up front as a down payment. The down payment offers the lender some assurance that you are committed to paying for the house over time. It also provides an incentive for you to keep making monthly payments so that you don't lose your investment. Though it's possible to get a mortgage with a small down payment, a down payment of 20% or more will help you avoid paying for Private Mortgage Insurance (PMI).

**A down payment of**
**20% or more**
**will help you avoid paying for Private Mortgage Insurance (PMI).**

## 4. Documentation

Your lender will want to see various documentation when considering you for a mortgage. To make the process easier and ensure a faster prequalification, start gathering the following documents. This isn't an exhaustive list, but it covers the items most often requested[19] by lenders:

- **Proof of income:** Grab your most recent W-2 forms, pay stubs, bank statements, and any other proof of income and have them ready to show your lender. This is key to proving you can make those mortgage payments.
- **Tax returns:** In addition to income, the lender will want to see your most recent tax returns (typically one to two years' worth).
- **Documentation of debts:** The bank needs to know how much debt (if any) you have — and how much you pay each month toward student loans, car payments, credit cards, or other debts.
- **Proof of assets:** If you have any investments, retirement accounts, savings accounts, bonds, or other assets, have proof handy. These assets enhance your financial profile and make it easier to get prequalified.
- **Residence history:** Past addresses, including landlord references, may be required.



**A strong history of past rent or mortgage payments will improve your chances of getting prequalified.**

- **Documentation of any gifts or loans for the down payment:** First-time home buyers often get a little help from family members to make their down payment. The bank will need documentation of any financial gifts or loans (documentation such as a signed letter indicating that the money was a financial gift or a personal loan).

## 5. Good debt-to-income ratios

Lenders use this ratio to determine how big of a mortgage loan you can handle. The debt-to-income ratio (DTI) is, simply, how much debt you currently have in relation to your income. A high DTI might signal to the bank that you have too much debt for your income level and don't have room in your budget to pay a mortgage. A low DTI shows that you have a good balance between debt and income and can take on a mortgage payment. To improve your chances of getting a mortgage, work on lowering your DTI. You can do this by paying off credit card balances and car loans, or paying down student loan balances.


## 6. Know how much house you can afford

One last key to getting that mortgage prequalification is understanding how much house you can afford. This takes into account not only the purchase price of the home, but also how much cash you plan to pay as a down payment, what you qualify for, and what your income and monthly expenses are. Many financial experts recommend that your monthly house payment is no more than 30% of your monthly income. Not sure how much house you can afford? Use our handy calculator.

TIP

**Ready to take the next step? Explore mortgage loan options from Synovus and contact a mortgage lender near you.**

**Learn more about our mortgage options**

# Mortgage acronyms explained

## APR – annual percentage rate

Your annual percentage rate is the percent of the loan you will pay every year in interest. This amount will then get added to the amount you borrowed to calculate the total amount you owe.

## CD – Closing Disclosure

The Closing Disclosure is what you'll receive a few days before you officially close on your house. It is provided by the lender, and it compares your final costs and terms with your initial loan estimate.

## CLTV – combined loan-to-value (ratio)

Your CLTV is the ratio of all secured loans (including the first loan, HELOC, and any additional financing such as a second mortgage) on a property in relation to its value. The ratio is expressed as a percentage, and lenders use it to evaluate risk.

## DPA – down payment assistance

Down payment assistance programs help prospective home buyers who are ready to purchase but don't have the funds for a full down payment. This assistance can come in the form of grants, low-interest loans, or zero-interest loans, some of which are forgivable.

## DTI – debt-to-income (ratio)

Your debt-to-income ratio is the amount of your all of your debts (including a mortgage) in relation to your income. This is one key figure lenders use when determining loan qualification.

## FHA – Federal Housing Authority

Loans from the Federal Housing Authority are backed by the government with a fixed rate. FHA borrowers can put as little as 3.5% of the purchase price as the down payment, though mortgage insurance is often required.

## HELOC – home equity line of credit

A HELOC is a line of credit separate from your mortgage that is based on the equity of your home.

## HOA – homeowner's association

A homeowner's association is the organization that creates and enforces rules for homes and residents. You'll often find it in condos, co-ops and some residential neighborhoods. It comes with a fee, so make sure to factor that into your budget if you're looking at those types of properties.

# Mortgage acronyms explained

## HOI – homeowner's insurance

Homeowner's insurance is a type of insurance that covers your property against damage or loss. Many lenders will require you to have a policy before closing. Note that it is different from a home warranty and mortgage insurance.

## LE – Loan Estimate

A Loan Estimate is a document that explains in detail the terms, payments and costs associated with your loan.

## LTV – loan-to-value (ratio)

Not to be confused with CLTV, your loan-to-value ratio is the value of the your mortgage loan in relation to the appraised value of the home. Lenders use it to determine two things: whether to approve your application, and whether you'll need to pay PMI.

## P&I – principal and interest

Principal and interest are the two core parts of your monthly mortgage payment. "Principal" refers to the actual loan balance, while “interest" refers to – you guessed it – the interest on the loan.

## PITI – principal, interest, taxes and insurance

PITI is similar to P&I, only it adds taxes and insurance. Altogether, these four pieces represent your entire monthly mortgage payment.

## PMI – private mortgage insurance

Private mortgage insurance is a type of loan insurance that some lenders require buyers to have, intended to protect the lender if the buyer defaults on the loan. It is most commonly required on conventional loans where the buyer puts less than 20% down.

## TIP – total interest percentage

You will find TIP on both your Loan Estimate and Closing Disclosure. It is a percentage that compares the total amount of interest you will pay on the loan with the actual amount you borrowed. Not to be confused with your interest rate or annual percentage rate.

## UFMIP – up front mortgage insurance premium

UFMIP is similar to PMI, only it applies to FHA loans instead of conventional.

## USDA – United States Department of Agriculture

The housing service of the USDA offers fixed-rate mortgage loans to borrowers in rural areas. These loans typically offer favorable interest rates and a zero down payment options to buyers with low to moderate incomes. The mortgage process is full of confusing acronyms. Learn how to speak the home-buying language to ensure a smoother process.

# About

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# Appendix


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