



Buyer's Guide to Homeownership

The Homebuying Process and You

STIFEL

STIFEL BANK & TRUST

Buyer's Guide to Homeownership

Pros of Homeownership

A Solid Investment

Unlike renting, homeownership builds equity. There is no guaranteed price appreciation due to changing market trends, yet home values historically have increased over time.

Tax Benefits ¹

In many cases, interest paid on a mortgage is deductible under the current tax code.

Community

Owning a home helps anchor families in a community, and therefore helps anchor the community too. See what you and your neighbors can accomplish when you all have a financial stake in the neighborhood.

Future Planning

With each mortgage payment, you build equity. Over time, that equity can be accessed and used toward the purchase of another home, a life goal, or home improvements.



Cons of Homeownership

Added Expenses

While you may find yourself saving money in your monthly mortgage payment versus rent, you will need to be prepared for home repair and maintenance costs.

Market Variables

The future may look different when it is time to sell your home. The economy, time of the year, and the number of active listings on the market can play a factor in how quickly and at what price a home will sell, if you ever choose to do so.

Flexibility

Purchasing a home is much more of a time commitment than renting. Not only are you now responsible for maintenance and upkeep, including yard work and appliance repairs, it takes more planning to move from a place you own than a place you are renting.

¹ Please consult a tax professional. Stifel Bank & Trust does not provide tax advice.

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Mortgage Loan Documentation

In today's market, all loan types require full documentation. Each client will be given a complete list of materials needed for their loan with their Loan Estimate. The typical documentation needed from borrowers to complete a mortgage loan include:



Two years' most recent W2s
for all applicants on the
loan



Two years' most recent Federal Tax Returns for all applicants on the loan — all pages and schedules filed, including K1s if applicable (If clients hold 25% or more ownership in a company, business tax returns are needed)



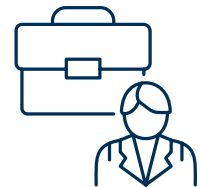
Most recent paystubs
covering at least
30 days



Government-issued
identification, like a **driver's
license**



Most recent two months',
or quarterly, statements
of **checking, savings,
investment, and retirement
accounts** — all pages



Name and phone
number of **insurance
agent**

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Your Mortgage

The components included in your monthly mortgage payments can be broken down as follows:

Principal & Interest

The portion of your loan principal and interest due each month. As is reflected in an amortization table, as each payment is made, a larger percentage of your payment goes toward paying down your principal balance.

Escrows

Property taxes and homeowners insurance are items your lender collects through your monthly mortgage payment and pays on your behalf. Each year, your escrow payment is evaluated and recalculated. Any overages are refunded to you, while shortages will be factored into your monthly payments.

Mortgage Insurance

If you have less than 20% equity in your home, monthly payments will include mortgage insurance.



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Loan Programs

Conventional Loans

- **Minimum down payment** is 5%¹
- Credit scores will impact interest rates
- Gift funds are allowed after 5% of buyer's own funds requirement is met, unless a gift of 20% or more is given
- Seller-assisted closing cost and pre-paid items are allowed as follows
- Up to 3% of sale price (minimum 5% down payment)
- Up to 6% of sale price (minimum 10% down payment)
- **Maximum loan** amount: **\$766,550**

FHA Loans

- **Minimum down payment** is 3.5%
- Credit scores will impact interest rates
- Gift funds or loans from a relative and approved First Time Homebuyer programs are acceptable sources for a down payment
- Seller-assisted closing cost and prepaid items can be up to 6% of sale price
- **Maximum loan** amount for St. Louis metropolitan statistical area: **\$498,257**

VA Loans

- **No down payment required for active or retired Military personnel** who meet VA mortgage guidelines; however, **loan amounts over \$548,250 require some down payment**
- Appraisals are performed by approved VA appraisers only
- Seller-assisted closing costs and prepaid items can be up to 4% of sale price
- **Maximum loan amounts vary** based on eligibility

Mortgage insurance is required for all loans with less than 20% down payment.

¹Can be as low as 3% in some cases

Closing Costs & Prepaid Items

Closing Costs

Closing costs generally consist of the following:

- Origination Fee
- Appraisal
- Credit Report
- Flood Letter
- Title Insurance
- Title Transaction Fees
- Courier Fees
- Recording Fees
- Survey



Prepaid Items

Prepaid items generally consist of the following:

- First year of home insurance premium
- Interest from your closing date through the last day of the month
- Escrow for real estate taxes and homeowners insurance*
- Flood insurance** if applicable

*Escrows are collected to cover homeowners (hazard) insurance and all applicable real estate taxes, including a two-month cushion. Escrows may be waived for eligible borrowers with conforming loans and >20% equity.

**Flood insurance escrows are required for all properties located in a flood zone. Note, if property is located in a flood zone, borrowers who waive escrows for real estate taxes and homeowners insurance are still required to escrow for flood insurance.

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Debt-to-Income Ratio

Your debt-to-income ratio, or DTI, indicates how much of your income goes toward paying your obligations. Lenders use your DTI to determine if you can handle a mortgage payment along with your other obligations.

Monthly Debt

Mortgage/rent payment _____

Minimum credit card payments _____

Car loan _____

Student loans _____

Alimony/child support payments _____

Other loans/debt _____

Total (A) _____

Monthly Income

Income from wages _____

Alimony/child support _____

Bonus or overtime _____

Other income _____

Total (B) _____

Debt-to-income ratio = $A/B \times 100$ _____ %

To calculate your debt to income ratio, divide your monthly debt (A) by your monthly income (B), then multiply by 100.

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Your Debt-to-Income Ratio Results

36% or less

The healthiest debt load for the majority of people. Avoid incurring more debt.

37% - 42%

Not bad, but you should start reducing your debt to get in a better financial position.

43% - 49%

Likely you are in financial trouble. Start paying down your debts now to prevent debt overload.

50% or more

DANGER! It is time to aggressively pay off your debts. Consider seeking professional debt management help.

Adding to your debt during the mortgage process can impact your ability to buy a home. Do not take on more debt once you have applied for a loan.



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Glossary of Lending Terms

Amortization – Repayment of a mortgage loan through equal monthly installments in which the loan will be paid off at the end of the term. The ratio of principal to interest increases over time.

Appraisal – A written estimate of the current market value based on a comparison of recent sales and the condition of the property.

APR (Annual Percentage Rate) – The initial cost of a loan based on a yearly rate. Lender fees, daily interest, originations, points, and title fees are calculated into the APR. This rate will usually be higher than the interest rate.

ARM (Adjustable Rate Mortgage) – A mortgage loan in which the rate can adjust after the initial term based on predetermined indexes and frequency. For example, a 2/1 ARM has a set rate for the first two years, and adjusts annually after that. ARM loans typically have interest rate caps. For example, an ARM with a 2/6 rate cap cannot adjust up more than 2% in any year, and also cannot increase to >6% above the initial rate, regardless of market conditions.

Association Dues – Fees paid annually or monthly to the condominium or neighborhood associations, used for maintenance and insurance of common areas.

Cap – This term is used in regard to the limit a rate can change on an ARM loan (see ARM definition) independently of the mortgage.

Closing Cost – The customary charges to originate, process, and close a mortgage loan.

Conventional Loan – A loan that conforms to the lending guidelines set forth by FNMA and FHLMC, more commonly known as Fannie Mae and Freddie Mac.

Deed of Trust – A document signed at closing that names the borrower and executed lien details. The document is recorded in the county in which the property is located. Note: This is a public document.

Default – Failure of the borrower to make the monthly mortgage payments as agreed.

Earnest Money – A deposit paid to the seller and held by the title company when the contract is written. Earnest Money shows the good faith of the buyer's intent to purchase the home.

Equity – The difference between the outstanding liens and the current market value of the home. *If a home is worth \$200,000 and the lien balance is \$150,000, the owner has 25% equity.*

Escrow Account – Monthly allotments for real estate taxes and insurance paid within the mortgage payment and deposited into an account on behalf of the borrower, and then paid by the lender when due.

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Glossary of Lending Terms

FHA (Federal Housing Administration) – A division of Housing and Urban Development (HUD) that insures residential mortgage loans for default purposes and develops lending guidelines to effectively serve home buyers and lenders.

Fannie Mae and Freddie Mac – Quasi-government agencies that set guidelines for Conventional Loans.

GFE (Good Faith Estimate) – A detailed proposal of the mortgage loan terms and associated fees, delivered within three business days of the application.

Hazard Insurance – Required insurance to protect the lienholder and borrower for losses sustained or damage to the mortgage property.

Interest Rate – The cost of funds for the mortgage expressed as a percentage.

MHDC (Missouri Housing Development Commission) – A state-funded agency to help with first-time homebuyer assistance as well as other qualified persons.

PMI (Private Mortgage Insurance) – Insurance required on Conventional Loans with less than 20% equity to protect the lender in case of default.

PUD (Planned Unit Development) – A subdivision or other planned grouping of homes.

Reg Z – A regulation designed to help consumers understand the cost of their loan.

RESPA (Real Estate Settlement Procedures Act) – A regulation to protect consumers during real estate transactions, including the loan process.

TIL (Truth in Lending) – A regulation providing consumers with full written disclosure of all fees, terms, and conditions associated with the loan.

Title – A document that gives evidence of ownership and rights of possession.

Title Insurance – Insurance that protects the lender and/or borrower against loss due to disputes over ownership or claims against the property.

VA (Department of Veterans Affairs) – A federal agency that facilitates loans to veterans and insures the lender in case of default.

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Credit Bureaus

There are three main credit repositories to which creditors report the payment habits of their clients. The credit repositories analyze the client data to forecast the likelihood of each consumer to repay debt. These forecasts are represented in the form of a credit score. Mortgage credit scores are calculated differently than consumer loans, auto loans, credit cards, etc. A client's credit score for an auto loan may be 788, while their mortgage credit score is 752.

Below is the information for all three credit bureaus. Each consumer is entitled to a copy of the data reported from their creditors annually, from each repository. This FREE information is a good way to monitor your use of credit, and see if any fraudulent or inaccurate information is included on your report.

Log on to www.annualcreditreport.com for a free copy of your credit report.

Transunion

P.O. Box 2000
Chester, PA 19016
(833) 396-6938
www.transunion.com

Experian

P.O. Box 4500
Allen, TX 75013
(888) 397-3742
www.experian.com

Equifax

P.O. Box 740256
Atlanta, GA 30374
(888) 378-4329
www.equifax.com

Stifel Bank & Trust can help with your home purchase or refinance today!

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