



Home Lending

A Financial Education presentation prepared by Webster Bank, N.A.



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2019

Course Content

- Preparing for Homeownership
- Understanding the Mortgage Process
- Understanding Credit
- Home Buying Resources

Preparing for Homeownership



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So You Are Thinking About Buying A Home



Buying a house can be an exciting and emotional process, but it is also a major decision that shouldn't be taken lightly. To help you make the right decision for you and your family, it's best to fully understand the home buying process and consider what you are looking for in a home.

THINGS TO CONSIDER	
WHY do you want to buy a home	Are you looking for stability and to set down roots? Does it make sense for you financially? Are you prepared for the responsibilities of owning and maintaining a home?
WHERE do you want to live	Are you looking to live in the city? Suburbs? Close to work? Good school districts?
WHEN would you like to move	Are you looking to move within the next few months? A year? Be settled in before the start of the new school year?
WHAT do you want in a home	Are you looking for a starter home? A home where you can renovate and add your own personal touch? A move-in ready home? Do you need extra space for a growing family? A home that can easily be expanded, if necessary? Basement? 2 Car Garage? Ranch style home or a home with multiple floors? Single family or multi-family with rental income?
HOW will you get the down payment	Have you established a savings plan to help you save for the down payment? Will you withdraw from a 401K or other retirement plan? Gift from family members?

Before you set out to buy a home, let's first take a look at the pros and cons of renting and owning a home. Homeownership may not be the right decision for everyone or it simply may not be the right time in your life to purchase a home.

Renting vs. Owning A Home

Renting:

Potential Advantages:

- No property maintenance
- Rental contract 1 year [or less]
- No homeowner associated costs

Potential Disadvantages:

- You are not the owner, not building equity
- Your rent might increase
- You may not be able to renew your contract and have to find a new place to live



Owning:

Potential Advantages:

- Building equity over time
- A home is an investment
- Tax-deductible mortgage interest
- Asset you can pass on to family members or sell

Potential Disadvantages:

- Property maintenance and upkeep
- Additional costs – real estate taxes, insurance, homeowners association fees
- Not as easy to move or relocate
- Risk of losing your home and investment if you do not make timely mortgage payments



Am I/We Ready To Buy A House?

1. Determine your readiness



Do you have:

- **Steady Income** - This usually means a job or other source(s) of income. A bank usually likes to see a steady source of income for at least 2 or 3 years.
- **Good credit history** [we will be reviewing credit basics in greater detail later in the workshop]

Know your credit score. Generally, the better your credit score, the more financing options you will have available to you.

If you have had credit challenges in the past, consider taking some time to improve your credit before applying for a loan.

If you have had limited or no “traditional” credit history, many banks may consider “alternative” credit. Alternative credit may include evidence of paying your rent on time, utility payments, etc.

Reach out to a banker to discuss your particular situation and review possible options or attend a free First Time Homebuyer Workshop!

- **A good record of paying bills on time**
- **The ability to pay debts, mortgage and other additional costs**
- **Money saved for the Down Payment** - Typically, a down payment of 20% of the purchase price of the home is required; however, there may be state, government and down payment assistant programs that may be available which would require as little as 3% of the purchase price.

Am I/We Ready To Buy A House? [continued]

2. How much house can you comfortably afford?

- **Create a budget** - This will help to determine what your income and expenses are currently. From here you can determine what would be a comfortable mortgage payment.
- **Mortgage Payment** – A good rule of thumb is a mortgage payment should be no more than 28% of your monthly income. For example, if you make \$3500/month, a comfortable payment might be \$980. $\$3,500 \times .28 = \980

Focus on what is a comfortable mortgage payment rather than how much you are able to borrow.

- **Practice “paying a mortgage payment”** - Once you have determined what a comfortable mortgage payment might be, subtract your current rental payment from the mortgage payment and practice putting that extra money aside each month for a few months. This will help you to make sure the mortgage payment is a comfortable amount. For example: if you monthly rent is \$800/month and you have determined that a comfortable mortgage payment is \$980. Put aside \$180 for a few months. This savings can also later be applied towards closing costs and your down payment.

On the next slide, we will now take a look at what is generally included in a mortgage payment.



Mortgage Payments And Other Related Expenses

Mortgage Payments Include:



- **Principal** – The amount of money borrowed on a loan. The principal payment is the portion of your monthly payment that reduces the principal balance of your loan.
- **Interest** – The amount of money a financial institution has earned and charges for the use of the money you have borrowed.

and also may include:

- Taxes - Property taxes
- Insurance - Hazard Insurance, Flood Insurance, Private Mortgage Insurance [PMI]

This is sometimes referred to as **PITI** – Principal, Interest, Taxes and Insurance

If the lender requires you to pay the taxes and insurance as part of your mortgage payment, the lender will open **an escrow account** to hold this money until the payments are due. Most people find this very convenient so they don't have to pay these expenses separately.

- When calculating housing expenses, do not forget to include Homeowner's Association dues, if applicable
- **Remember** to always save for other expenses such as unexpected household emergencies and repairs



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Private Mortgage Insurance [PMI]

Private Mortgage Insurance, also called PMI, is a type of mortgage insurance that is usually required when you have a conventional loan and make a down payment of less than 20% of the home's purchase price.

If you're refinancing with a conventional loan and your equity is less than 20% of the value of your home, PMI is also usually required.

This monthly premium is added to your mortgage payment.

Once you've built equity of 20% in your home, you can cancel the PMI and remove the expense from your mortgage payment.



Am I/We Ready To Buy A House? [continued]

■ 3. What are your financing options?

- **Fixed Rate Mortgage** - A home loan with a predetermined fixed interest rate for the entire term of the loan. Terms can vary from 10 to 40 years but most common are 15 and 30 year mortgages.

15 year mortgage versus a 30 year mortgage

- 15 year Mortgage – larger monthly payments; build equity faster; usually a lower interest rate; end up paying less interest
 - 30 year Mortgage – lower monthly payments, usually a higher interest rate; end up paying more interest
-
- **Adjustable Rate Mortgage [ARM]/Variable Rate Mortgage** - A mortgage in which the interest rate and monthly payments may change periodically during the life of the loan. Lenders may charge a lower interest rate for the initial period of the loan. Most ARMs have a rate cap that limits the amount the interest rate can change, both in an adjustment period and over the life of the loan.



Mortgage Points

You may have heard of Mortgage Points [sometime called “discount points” or “points”].

Mortgage points are fees paid directly to the lender at closing in exchange for a reduced interest rate. This is also called “buying down the rate,” which can lower your monthly mortgage payments.

One point costs 1% of your mortgage amount (or \$1,000 for every \$100,000). You simply pay some interest up front in exchange for a lower interest rate over the life of your loan.

Here’s an example of how paying Mortgage Points can help reduce your monthly payment.

How do Mortgage Points Work			
Loan Amount : \$200,000			
	No Points	1 Point	2 Points
Cost	\$0	\$2,000	\$4,000
APR*	4.50%	4.25%	4.00%
Monthly Payment **	\$1,013.37	\$983.88	\$954.83
Monthly Savings	N/A	\$29.49	\$58.54
Total Savings on a 30-year loan	N/A	\$10,616.40	\$21,074.40

- Sample APRs and points are for illustrative and educational purposes only and are not an actual rate, quote, or commitment. Actual buydown rate per point may vary by loan program and market conditions.

** This is the cost of principal and interest only, taxes and insurance are not included in this example.

Government, State Agency or Lender Loan Programs

Inquire about Government or State Assisted Mortgages or Lender Programs that may make your down payment and monthly mortgage payments more affordable. Listed below are some programs you may want to investigate.

- Low Down Payment Loan Options
- Competitive Mortgage Rates
- Flexible Underwriting Standards
- May require attending homeowner education classes
- Some restrictions, such as income or geography, may apply

* Note: Webster Bank does not participate in the USDA Rural Housing Program

Government Assisted Programs



Federal Housing Administration (FHA)



Veteran's Administration (VA)



USDA Rural Housing Program *

State Assisted Programs



Connecticut Housing Finance Authority (CHFA)



Massachusetts Housing Finance Authority (MHFA)



State of New York Mortgage Agency (SONYMA)



Rhode Island Federal Housing Authority (RIFHA)



Massachusetts Housing Partnership [MHP]

Community Organizations Offering Assistance

There are many community organizations that offer first-time homebuying counseling and/or down payment assistant loans and/or grants.

Listed here are just a few organizations that provide this type of support and guidance.

Reach out to see if one of these organizations are able to assist you.



Connecticut

Housing Development Fund (Statewide)
Bridgeport Neighborhood Trust
Neighborhood Housing Services of Waterbury
Neighborhood Housing Services of New Haven
Mutual Housing Association of Greater Hartford
NeighborWorks New Horizons (New Haven, New London and Fairfield Counties)
Eastern CT Housing Opportunities (New London Co)

Massachusetts

Boston

Asian Community Development Corporation
MA Affordable Housing Alliance, Inc.
Neighborhood of Affordable Housing (NOAH)
Urban Edge Housing Corp.

Cambridge

Just-A-Start

RI/SEMA

Neighborhood Housing Services of the South Shore dba NeighborWorks Southern MA
Rhode Island Housing

New York - Westchester

Housing Development Fund / NY Mortgage Coalition
Community Housing Innovations

Remember Shop, Compare, & Negotiate

- Check newspapers and the Internet for terms and rates
- Negotiate the best deal you can; ask lenders if they are offering any special mortgage programs
- Let lenders compete for your business
- **Caution:** Shopping for the best loan program is critical but try to limit the number of credit inquiries, as they will affect your credit score(s).



Understanding the Mortgage Process



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Seven Steps To Home Buying

Below are the seven [7] steps in buying a home. We have already reviewed ways to determine if buying a home is the right decision for you at this time and also ways in which you can prepare, so let's move on

✓ Get Home Ownership Ready

Find a Lender/Get Pre-Approved

Work with a Real Estate Agent/ Identify Potential Property

Make an Offer

Finalize the Financing

Engage a Real Estate Attorney and Insurance Agent

Closing/Funding



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Finding A Mortgage Lender

Buying a home is a big financial decision and you want to make sure you are comfortable with your purchase and that you trust your Mortgage Lender. Your Mortgage Lender should be experienced and provide you with the level of assistance you desire; offer you the best options, rates, terms and programs that are available to you; and has your best interest at heart.



Here are some questions to ask your Mortgage Lender

- How much can I borrow?

Ask about programs you may qualify for such as First time Homebuyer or Military/Veteran loans.

- How much of a Down Payment will I need?

Ask your lender about Down Payment or Cost Savings Assistance Programs for which you may be eligible

- What is the Interest Rate and the corresponding Annual Percentage Rate [APR]? How many points does the rate include?
- What are my estimated closing costs?
- Are there any other costs or fees I should be aware of?
- Can you provide an idea of how long it will take to close my loan? What might cause a delay in my closing?

Pre-Qualification vs. Pre-Approval

What is the difference between a Pre-Qualification and a Pre-Approval?

- **Pre-Qualification** - A prequalification is not a commitment. The financial institution may provide a prospective borrower with a general idea of how much they are able to borrow based upon preliminary information provided verbally by the individual, such as: income, employment, debts and down payment information. However in today's market, most realtors and sellers are looking for a preapproval.
- **Pre-Approval*** - A lender's conditional agreement to lend a specific amount of money to a homebuyer under a specified set of terms.



To obtain a preapproval, you will need to complete an application and provide certain information and paperwork [such as: one month of paystubs and proof of any additional income; two years of W2s and tax returns; and information about your debts]. The lender would also pull your credit.

* Note - Keep in mind that just because you pre-approved for a specific loan amount, does not necessarily mean that you can comfortably afford the monthly payments. You need to consider your particular circumstances and your future financial needs and goals.

Loan Estimate

The Loan Estimate is a three [3] page form that you will receive after you apply for a mortgage. The Loan Estimate provides important details about the loan that you requested, such as:

- Estimated Interest Rate
- Monthly Payment
- Total Closing Costs
- Estimated Costs of Taxes and Insurance

The Mortgage Lender is required to provide you with a Loan Estimate within three [3] business days of receiving your application.

When you receive a Loan Estimate, the Mortgage Lender has not yet approved or denied your mortgage application. It simply reflects the terms that the Mortgage Lender expects to offer you if you decide to move forward.

A sample of a complete Loan Estimate is included in your packet of materials and your instructor will review each of the sections with you.

Loan Estimate			
DATE ISSUED	2/15/2013	LOAN TERM	30 years
APPLICANTS	Michael Jones and Mary Stone 123 Anywhere Street Anytown, ST 12345	PURPOSE	Purchase
PROPERTY	456 Somewhere Avenue Anytown, ST 12345	PRODUCT	Fixed Rate
SALE PRICE	\$180,000	LOAN TYPE	<input checked="" type="checkbox"/> Conventional <input type="checkbox"/> FHA <input type="checkbox"/> VA <input type="checkbox"/>
		LOAN ID #	123456789
		RATE LOCK	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, until 4/16/2013 at 5:00 p.m. EDT <small>Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT</small>

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <small>See Projected Payments below for your Estimated Total Monthly Payment</small>	\$761.78	NO
Prepayment Penalty	YES	Does the loan have these features? • As high as \$3,240 if you pay off the loan during the first 2 years
Balloon Payment	NO	

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82	+ —
Estimated Escrow <small>Amount can increase over time</small>	+ 206	+ 206
Estimated Total Monthly Payment	\$1,050	\$968
Estimated Taxes, Insurance & Assessments <small>Amount can increase over time</small>	\$206 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <small>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</small>
		In escrow? YES YES

Costs at Closing	
Estimated Closing Costs	\$8,054 <small>Includes \$5,672 in Loan Costs + \$2,382 in Other Costs — \$0 in Lender Credits. See page 2 for details.</small>
Estimated Cash to Close	\$16,054 <small>Includes Closing Costs. See Calculating Cash to Close on page 2 for details.</small>

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

LOAN ESTIMATE PAGE 1 OF 3 • LOAN ID # 123456789

Two Important Calculations

Two important calculations lenders use to determine how much their applicant can comfortably afford to borrow for a home loan are called:

Front-End and Back-End Ratios



These ratios compare your current debt obligations to your gross monthly income.

- Housing expenses [PITI] should generally be no more than 28% of your monthly income. Lenders refer to this the **Front-End Ratio**.

Example: Monthly Income - \$4,416
Mortgage Payment [PITI] - \$1,050
 $\$1,050 / \$4,416 = .2378 = 23.78\%$

- Housing expenses + long term debt [car payment, student loans, credit cards, etc.] should generally be no more than 36% of your monthly income. Lender refer to this as the **Back-End Ratio**.

Example: Monthly Income - \$4,416
Mortgage Payment [PITI] - \$1,050
Monthly Car Payment - \$230
 $\$1,050 + \$230 = \$1,280$
 $\$1,280 / \$4,416 = .2899 = 28.99\%$



Finding The Right Property

Once you are pre-approved, you can work with a Real Estate Agent to find your first home, new home or dream home.

By having a pre-approval, you will be in a stronger position to make a credible offer to the seller.

What to do once you find a property you want to purchase

- Talk to your Real Estate Agent and set up an appointment to see the house
- Make sure you take note of any repairs or concerns
- Visit the neighborhood at different times of the day to get a true read on the area.
- Don't be afraid to negotiate the price. How motivated is the seller? Has the house been on the market a long time? Are there repairs that are necessary?



An experienced Real Estate Agent will be very helpful in determining a sound offer and negotiating with the seller.

Making An Offer And Finalizing The Financing

You are ready to make an offer

- Generally, an offer to purchase a home is generally contingent upon an acceptable **home inspection**. A home inspection is conducted to ensure that there are no unseen/hidden defects that require remediation or repair. If there are repairs that needed, you should re-negotiate the sales price.
- Once you have agreed on the property and the price, the lender will order an **appraisal**, which will establish a market value for the property.

Note: if you are pursuing a government or state agency loan, any property issues that the appraiser identifies that impact health and safety, will need to be repaired prior to the loan closing, i.e. Broken windows, Peeling paint, Non-working plumbing, Missing handrails, etc.

- You may need to submit additional documents as the lender continues to underwrite and process your mortgage request. The mortgage checklist on the following page will help you assemble most of the documents that most lenders request. Your lender may require other items and documentation that may be specific to your situation or their loan programs.



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Mortgage Checklist

Whether you're buying or refinancing a home, your mortgage process should go as smoothly as possible. The following checklist will help you assemble most of the necessary information and paperwork that you will need ahead of time.



- ☐ Your Social Security number and date of birth
- ☐ Addresses of where you have lived for the last two years
- ☐ A list of your employers for the last two years, including names, addresses and telephone numbers
- ☐ W-2 statements and tax returns for the last two years
- ☐ Divorce decree if you have been divorced
- ☐ Pay stubs for the last 30 days showing year-to-date earnings (If you're self-employed, you may have to document your income in other ways, such as federal tax returns, a profit-and-loss statement, and/or balance sheets for the past two years.)
- ☐ Bank account numbers and balances for your checking, savings and money market accounts (to prove you have enough cash to cover closing and cash reserves)
- ☐ Statements for any CDs, stocks, bonds or IRA accounts
- ☐ Gift letters that prove any money you've received from relatives or friends for your down payment or closing is a gift, not a loan, and doesn't have to be repaid
- ☐ Itemized list of your monthly expenses, such as rent, credit cards, car payment, student loans, etc.
- ☐ For final loan approval, you will need to supply a fully executed, signed copy of the sales contract between you and the seller
- ☐ You may also need a receipt for the deposit you paid when you made your offer on the home
- ☐ Most recent 2 years tax returns

Engaging A Real Estate Attorney And Insurance Agent



- Contact your [Insurance Agent](#) - You will be required to obtain homeowners insurance prior to closing. Your Insurance Agent will explain the different coverages and exclusions and help you determine what levels of insurance are most appropriate for you and your new home.

Note: Depending upon whether or not the home you are purchasing is located within a designated high-risk flood zone, you may also be required to obtain flood insurance. Your lender will advise you if flood insurance is required.



- [Real Estate Attorney](#) –A real estate attorney will represent you in the real estate transaction. The attorney will prepare and review the real estate documents such as the purchase agreements, mortgage documents and title and transfer documents.

Closing On Your New Home

Today is the big day – the day you close on your new home! The closing is the last stage in both the mortgage and homebuying process. You will be reading and signing dozens of documents.



At the closing, there are certain fees that are usually collected, but these fees would have already been discussed and reviewed with you. Typically, the closing costs range between 2% and 5% of the loan amount. These fees may include, but are not limited to:

- Loan Origination Fees
- Appraisal Fee and Survey Fees
- Attorney Fee
- Title Insurance
- Escrow Fee
- Mortgage Points [or prepaid Interest]
- Property Taxes
- Homeowners Insurance
- Other Fees

There are times when the seller may agree to pay some of the closing costs; however, this would have been discussed and included in the negotiations as part of your offer to buy the house.

Mortgage Closing Disclosure

Mortgage Lenders are required to provide your Closing Disclosure three [3] business days before your scheduled closing. Make sure to review it carefully and compare it to your most recent Loan Estimate.

If something does not look correct or is different from what you expected, ask for an explanation.

The Closing Disclosure is five [5] pages. A sample of a complete Closing Disclosure is included in your packet of materials and your instructor will review each of the sections with you.

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information		Transaction Information		Loan Information	
Date Issued	4/15/2013	Borrower	Michael Jones and Mary Stone	Loan Term	30 years
Closing Date	4/15/2013		123 Anywhere Street	Purpose	Purchase
Disbursement Date	4/15/2013		Anytown, ST 12345	Product	Fixed Rate
Settlement Agent	Epsilon Title Co.	Seller	Steve Cole and Amy Doe	Loan Type	<input checked="" type="checkbox"/> Conventional <input type="checkbox"/> FHA
File #	12-3456		321 Somewhere Drive		<input type="checkbox"/> VA <input type="checkbox"/>
Property	456 Somewhere Ave	Lender	Anytown, ST 12345	Loan ID #	123456789
	Anytown, ST 12345		Ficus Bank	MIC #	000654321
Sale Price	\$180,000				

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
Does the loan have these features?		
Prepayment Penalty	YES	• As high as \$3,240 if you pay off the loan during the first 2 years
Balloon Payment	NO	

Projected Payments			
Payment Calculation	Years 1-7		Years 8-30
Principal & Interest	\$761.78		\$761.78
Mortgage Insurance	+	82.35	+ —
Estimated Escrow <i>Amount can increase over time</i>	+	206.13	+ 206.13
Estimated Total Monthly Payment	\$1,050.26		\$967.91
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time See page 4 for details</i>	\$356.13 a month		
		This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input checked="" type="checkbox"/> Other: Homeowner's Association Dues <i>See Escrow Account on page 4 for details. You must pay for other property costs separately.</i>	In escrow? YES YES NO

Costs at Closing		
Closing Costs	\$9,712.10	Includes \$4,694.05 in Loan Costs + \$5,018.05 in Other Costs – \$0 in Lender Credits. See page 2 for details.
Cash to Close	\$14,147.26	Includes Closing Costs. See Calculating Cash to Close on page 3 for details.

How To Read A Mortgage Statement

Original Principal Balance is the original amount that was financed. The **Unpaid Principal Balance** is the balance that is remaining, prior to making this month's payment.

Past Payment Breakdown reflects how payment (s) since your last statement were applied and total **Paid Year-To-Date** amounts applied towards Principal, Interest and Escrow

Principal - This is the amount of your monthly payment that will be applied towards reducing the original principal balance of your loan from this month's payment .

Escrow – This is the amount of your monthly payment that will be escrowed and used to pay your real estate taxes, insurance, and/or other items that are being escrowed.

**MORTGAGE COMPANY
of AMERICA**

Mr. Mortgagee
123 Cherry Lane
Seattle, WA 12345

Mortgage Loan Statement

Loan Number 9876543210
Statement Date 04/02/2017
Property Address 123 Cherry Lane
Seattle, MA 12345

Total Amount Due **\$1,323.64**
Payment Due Date **05/01/2017**
A late charge of \$48.50 may apply if received after 5/16/2016.

Loan Overview (as of 4/2/2017)

Original Principal Balance	\$200,000.00
Unpaid Principal Balance	\$178,491.51
Interest Rate	5.0000%
Escrow Balance	\$1,835.00

Your Unpaid Principal Balance is not a payoff quote. Learn more about the payoff process by visiting www.mortgagecompanyofamerica.com or calling 1-800-123-4567.

Past Payments Breakdown

	Paid Since Last Stmt	Paid YTD
Principal	\$428.14	\$1,701.95
Interest	\$745.50	\$2,992.62
Escrow Payment	\$250.00	\$1,000.00
Total	\$1,423.64	\$5,694.57

Transaction Activity Since Your Last Statement (Includes Fees/Charges)

Transaction Date	Description	Total Received	Principal	Interest	Escrow	Fees	Unapplied Funds
04/01/2017	PAYMENT	\$1,423.64	\$428.14	\$745.50	\$250.00		

Important Messages

Sign up for paperless statements by visiting www.mortgagecompanyofamerica.com.

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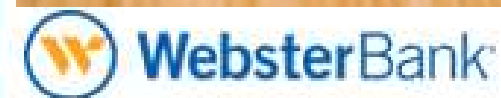
Explanation of Amount Due

Principal	Total =	\$329.93
Interest	\$1,073.64	\$743.71
Escrow Payments		\$250.00
Monthly Payment		\$1,323.64
Prior Fees/Charges		\$0.00
Fees/Charges Since Last Stmt		\$0.00
Total Amount Due		\$1,323.64

Existing Homeowners: Borrowing Against your Home's Equity



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Understanding Credit



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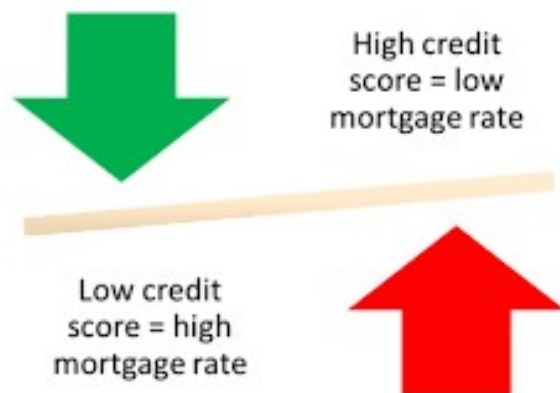


Credit Basics

Credit is the ability to borrow money. When you borrow money, you make a promise to pay the money you borrowed plus a little more which is called Interest.

The Importance of credit

- ▶ Can be useful in times of emergencies
- ▶ Is more convenient and safer than carrying large amounts of cash
- ▶ Allows you to make a large purchase, such as a car or a house, and pay for it over time
- ▶ Can affect your ability to obtain a job, buy or rent a house, or obtain insurance



Good Credit - means that you make your loan payments on time and it will be easier and less costly to borrow money in the future

Types Of Credit

Consumer Loans - used to pay for personal expenses for you and your family.

Credit Cards – provides you with the ongoing ability to borrow money to make purchases without actually paying for the purchase right away. **Remember that if you are not careful in spending, you can get into more debt than you can easily pay back.** You **MUST** be sure you will be able to make at least the minimum monthly payments.

Home Loans – used to purchase, refinance or make improvements on a home. You can use the equity in your home to secure a loan for other purposes.

Secured Loan – a loan where the borrower offers collateral to the lender. If the loan is not paid back, the collateral is given to the lender.
Example: Home Loan or Auto Loan

Collateral – something of value that is pledged to secure a loan, a car, for example.

Unsecured Loan – a loan that is not backed by collateral. Example:
Credit card*

* Some banks, including Webster Bank, offer secured credit cards which are secured by a savings account and can help customers establish or rebuild their credit



The Cost Of Credit

Fees - charges by financial institutions for activities such as underwriting your loan application and servicing the account

Interest - amount of money a financial institution charges for letting you borrow. Interest rates can either be fixed or variable.

Annual Percentage Rate [APR] = The cost of borrowing money on a yearly basis (interest + fees)

Paying only the minimum: In this scenario, assume you have \$10,000 in debt, your credit has an APR of 15% and the minimum payment is 4% of your balance.

MONTHLY PAYMENT	Minimum Payment [starting @ \$400]	Minimum Payment + \$100	Minimum Payment + \$250
TOTAL AMOUNT PAID	\$14,452.37	\$11,579.47	\$11,008.54
TOTAL AMOUNT OF INTEREST PAID	\$4,452.37	\$1,579.47	\$1,008.54
HOW LONG BEFORE THE DEBT IS PAID OFF	148 Months [12 years + 4 months]	24 Months [2 years]	15 Months [1 year + 3 months]
TOTAL SAVINGS	N/A	\$2,872.90	\$3,443.83

Source: [National Debt Relief](#)

Credit is a measure of how well you manage your financial responsibilities. There are three main credit reporting agencies:



These agencies receive payment information from a variety of creditors and also collect information about bankruptcy filings, court-ordered judgments, tax liens, and other public record information from courthouse records. The information is compiled and becomes part of your credit report.

Who checks your credit? Financial Institutions, Landlords, Employers, Insurance Companies and Hospitals

Information Contained within a Credit Report	
Name	Telephone Number
Social Security Number	A Report of your Credit History
Date of Birth	Number of Inquiries
Addresses [current and previous]	A Report of Public Records [Collection Accounts, Bankruptcies, Tax Liens]

It is important to understand how your credit score is calculated . Although credit agencies use their own grading scales, generally credit scores range between 300 – 850

How your Credit Score is Calculated

Repayment History	35%	It is so important to pay your bills on time. Late payments can really drop your score quickly. If you start with a 700 credit score and make one payment 30 days late, your score can drop to a 630. If you make two late payments, your score can drop to a 600. If you make that second payment on time, your score could rise up to a 660, but it can take you a year to build that score back up to a 700
Amount Owed	30%	The agencies look at your loans and credit cards individually and combined together to see how much you owe in comparison to your limits and check total balances compared to total credit limits.
Length of Credit History	15%	The longer, the better
Types of Credit Used	10%	Lenders want to see where you're borrowing money and what type of debt you have.
New Credit	10%	Numerous inquiries on your credit report may suggest that you could be having financial troubles or are becoming too deep in debt, and that will drop your score. Shopping for a mortgage or an auto loan may cause multiple lenders to request your credit report, even though you are only looking for one loan. To compensate for this, the score considers all mortgage and auto inquiries made within a 30 day period as one inquiry. That means that your credit score is not harmed by shopping around for the best car or home loan.

How Does Your Credit Score Impact Your Credit

In our example:

- A person with a credit score of 730 would receive a lower interest rate [5.526%] and have a monthly payment of \$854
- A person with a credit score of only 670 would receive a much higher interest rate [7.338%] and therefore have a higher monthly payment of \$1,032.



30 Year Fixed Rate Mortgage		
Score	Interest*	\$150,000
720 - 850	5.526	\$ 854
700 - 719	5.651	\$ 866
675 - 699	6.188	\$ 918
620 - 674	7.338	\$1,032

The higher your credit score, the more likely you are to be approved for a loan. A person with a credit score below 620 may have difficulty obtaining a loan.

* Rates are for illustrative and educational purposes only and are not an actual rate, quote, or commitment.

Check your Credit: You are allowed to get one copy of your credit report from each of the credit reporting agencies once each year for free by going to: www.annualcreditreport.com



Review your credit report for errors :



- If you find an error, contact the agency and dispute the information. The reporter of the information will then be requested to validate the accuracy of information being reported within a specific timeframe. If they are not able to confirm the information or find out that it was a reporting error, it will be removed from your credit report.
- Make sure you follow up to confirm that the error was corrected.

REMEMBER: It's never too late to begin to repair your credit. Improved payment history and reducing debt can make a significant difference in your credit score.



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Home Buying Resources

- Department of Housing and Urban Development [HUD] <https://www.hud.gov>
- Federal Housing Administration [FHA]
https://www.hud.gov/program_offices/housing/fhahistory
- Veteran's Administration [VA] <https://www.benefits.va.gov/homeloans/>
- USDA Rural Housing Program <https://www.usda.gov/topics/rural/housing-assistance>
- Connecticut Housing Finance Authority [CHFA] <https://www.chfa.org/>
- Massachusetts Housing Finance Authority [MHFA]/Mass Housing
<https://www.masshousing.com/portal/server.pt/community/home/217>
- State of New York Mortgage Agency [SONYMA] <https://hcr.ny.gov/sonyma>
- Rhode Island Federal Housing Authority <https://www.rihousing.com/>
- Massachusetts Housing Partnership [MHP] <https://www.mhp.net/one-mortgage>
- Consumer Finance Protection Bureau [CFPB]
<https://www.consumerfinance.gov/owning-a-home>





Notes



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