FAQ'S

50+ common mortgage questions answered clearly

FROM YOUR FRIENDS AT

RESIDENTIAL MORTGAGE LENDER

QUESTIONS, ANSWERS

AND SO MUCH MORE

Integrity, Reliability, & Simplicity are our values.

Funding the American Dream is our goal.

In the process of making dreams

happen, questions will come up.

Let us help you answer them.

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FOR TERMS IN BLUE, SEE OUR GLOSSARY.

GENERAL QUESTIONS

What should I look for in shopping loans, terms, and rates among lenders?

Borrowers often think that the very lowest rate is the very best deal. While rate is important, there are many other factors that you may need to consider, such as: Closing Costs, Down Payment requirements, Buy-downs (or Discount Points) and 3rd Party Fees. At Network Funding, we believe in showing all of our costs up-front and making it as easy to understand as possible. That's what our Loan Officers are here for: to educate you on each factor and coach you through the Loan Process. Whether we get your business or not, we want to help you understand your options so that you can pick the best mortgage *for you*.

What is the difference between a mortgage broker and a mortgage lender/creditor?

Network Funding is a privately-owned mortgage lender. A mortgage lender is a financial institution that has the ability to originate, underwrite, close, and fund a mortgage loan. As a mortgage lender we offer a variety of loan options, make the underwriting decisions, prepare closing documents, and fund your mortgage loan, utilizing our own staff and our own funds. After your loan is closed and funded, we may sell the loan to an investor in the secondary market or may retain the servicing rights to the loan. We are approved as lenders by the Federal Housing Administration and the Veterans Administration, and we are also a "Full Eagle" seller, meaning we sell directly to Fannie Mae, Freddie Mac, and Ginnie Mae. By keeping the entire Loan Process "in house," we're able to maintain our high standards throughout the process.

A mortgage broker is not a lender, but simply arranges mortgage financing through a third party lender. A mortgage broker may also offer a variety of loans from a variety of lenders, however a mortgage broker must rely on the lender they select to do the underwriting, closing and funding of the loan.

Consequently, while mortgage brokers may have more options than a
small mortgage lender, they do not have the same level of control over the Loan Process that mortgage lenders do. Larger private lenders, such as Network Funding, have access to multiple investors and many loan options. So with Network Funding, you know you can receive quality service and quantity of options.

What is the difference between a Lender and a Servicer?

Each mortgage loan has two components: the right of the investor to *receive* the principal and interest repayments due on the Mortgage Note, and the right to collect the payments along with collecting the payments for taxes and insurance on the property (& mortgage). The obligation to collect and make those payments when they are due, is referred to as the Servicing Rights.

The Servicer is the entity that owns the Servicing Rights to a mortgage and is the entity to whom you make your monthly payments. As a Lender, we originate the mortgage loan, but may also choose to act as the Servicer. Usually, we sell the Mortgage Rights to another Investor and Servicing Rights to a third party. You may have heard of the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). These entities are quasi-government agencies that are the largest buyers of mortgage loans in the US. However, neither of the agencies service loans. Therefore, it is possible we could sell the Mortgage Rights to Fannie Mae and retain the Servicing Rights ourselves.

RATE & TERMS

What is a rate lock?

We will quote loan interest rates to you after determining your qualifications. However, there is a time lapse between initial qualification and the funding of your loan, and the rate available for your loan can change drastically over that time period, depending on what happens in the market. Most of the time, choosing to “lock” your rate as quoted is advisable, to avoid delays or a rise in rate.

We will advise and coach you through this decision, as a rate can be locked for a period of 30 – 60 days at varying costs. While locking your rate ensures your rate cannot increase (despite market activity) for the allotted time period, it also means that it cannot decrease (even if the market improves). Choosing not to lock your terms means your rate is considered “floating” and is subject to changes in the market.

What is the Annual Percentage Rate (APR) and why is it different than my interest rate?

The Annual Percentage Rate (APR) is a calculation of the total cost of financing expressed as a percentage. Included in the calculation are the interest rate, any discount points (buy-down) you pay, any fees you pay either to the lender or to a third party as a requirement of the loan, and any other costs established by law. Typically, fees you pay are included in the APR calculation *if the fee would not have been incurred had you paid cash for the home*. Therefore the APR percentage will almost always be higher than your interest rate. However, the Annual Percentage Rate has ***no*** effect on the monthly payment you will make on your mortgage.

So why provide an APR? Great question. The Federal Truth-in-Lending law established this disclosure requirement in order to provide consumers, like yourself, a tool to compare the cost of lending between lenders. This way if two lenders are quoting the same rate, you should be able to tell which lender has the higher closing costs based on the APR. So, if you shop around, don’t just ask for the interest rate, make sure you get the APR too.

Why is my payoff amount different than my principal balance?

Interest on a mortgage loan is paid in arrears, meaning the current month’s payment is paying the prior month’s interest. When you close on a mortgage loan, you prepay at closing (consummation) the interest due from the date of the closing until the first day of the following month, and (typically) will not make a mortgage payment until the first day of the next month.

For example, if you close on a new home on January 15 and pay interest at closing from January 15 through January 31, your first mortgage payment will be due on March 1. When you pay the March payment, you are paying interest due for February. It’s basically the opposite of rent; rather than paying to live in your home for the upcoming month, you’re paying for the month you just lived in it.

The principal balance on your mortgage is the balance remaining after your most recent payment was made. The payoff will include the principal balance plus any accrued interest due since that last payment was made.

What are points?

Points are one-time fees paid at closing (consummation). They are also commonly referred to as “discount points“ or “buy-downs.” They are the cost of buying the interest rate down to a lower rate on a mortgage. Most interest rates are available in increments of 0.125% (think 4.125%, 4.25%, 4.375%, etc), however the market does not move in increments of 0.125%. So, if interest rates for a given loan product are at 4.25% (hypothetically), the points would be the cost of buying that rate down to 4.125% or lower.

Bona Fide points are the true cost to the lender to acquire the lower rate on your behalf. If a discount point is not *bona fide*, it means that the lender is charging above the cost of actually acquiring that lower rate. Generally, you as the borrower are responsible for the cost of the discount points.

Historically, “points” generally equalled 1% (or 100 basis points) of the loan amount. However, with bona fide discount points, it is the true cost of acquiring that lower rate, and that can vary drastically. In addition to buying the interest rate down, points can also be charged for certain services (origination for example) and/or closing costs. At Network Funding, though, we only allow for *bona fide* discount points pertaining to interest rates, as we charge a flat rate for all of our closing costs/services.

If you’re trying to determine whether you should purchase discount points, ask your Loan Officer. The easiest calculation is to compare the cost of acquiring the lower rate, divided by the difference (savings) in your monthly payment from one rate to the next. This will tell you how many months it will take before you recover the cost of the buy-down. Sometimes it is worth it. Sometimes it is not.

DOWN PAYMENTS

How much of a down payment is required to qualify for a mortgage loan?

Most loan programs require some amount of down payment as initial equity in your home. Minimum down payments requirements range from 3% - 25%, depending on the loan program and purpose of the loan (primary residence, investment property, etc).

However, there are a few loan programs that may allow for a 0% down payment to qualified borrowers:

- VA Loans: Some Veterans may qualify for a loan program with a 0% down payment.
- USDA Loans: Some borrowers may qualify for a USDA loan with a 0% down payment for a home within designated rural areas.

Can I qualify for a home loan, if I don't have a down payment?

See answer for *"How much of a down payment is required to qualify for a mortgage loan?"*

LOAN PROGRAMS

What is an Adjustable Rate Mortgage, and how does it work?

An Adjustable Rate Mortgage (ARM) is a mortgage loan with an interest rate that changes (adjusts) over time. The rate is tied to a specific index in the market and adjusts within defined limits (CAPs) set in the loan program. Typically, your interest rate is fixed for an initial period of time (5 years is pretty common), after which your interest rate may adjust on the anniversary of your loan. The frequency and the amount of change is limited by the CAPs on the loan program.

Just because you have an ARM does NOT mean that your interest rate will automatically increase. The rate will ONLY increase if the index that your loan is tied to has increased at the time your interest rate is eligible to adjust. Your interest rate is also eligible to decrease, should the index have dropped over the same period of time.

Although your interest rate is more volatile with an ARM, ARMs can be advantageous for certain borrowers. If you know that you will not be in the home "long term" or if you plan to pay off your mortgage sooner, having an adjustable rate mortgage may make more sense.

Typically speaking, most ARMs have lower interest rates initially than their fixed counterparts, though not always.

What is a Fixed Rate Mortgage, and how do they work?

A Fixed Rate Mortgage is a mortgage loan that has an interest rate that does not change over time. Once your loan is closed, the rate will never change. This means, the principal and interest part of your mortgage payment will not change.

Most homeowners prefer this type of financing, if they plan to pay the minimum required monthly payment and keep the home indefinitely.

Should I choose a 15-year or 30-year mortgage?

It depends. With a shorter-term mortgage, your payments will be higher, but your interest rate usually is lower. The reason your payment is higher is because you are paying the same amount of financing off in half the time. This means that you pay your mortgage off sooner, and because of the lower interest rate, you'll spend a lot less doing so.

If you are not planning on staying in the home indefinitely, then a 30-year may make more sense. Because a 30-year mortgage is by definition longer, the amount you pay each month is less. However, the higher interest rate means it will cost you more over the life of the loan.

If you are unsure about your ability to sustain higher mortgage payments but would like to do a 15-year mortgage, choosing a 30-year loan and paying extra each month can be a practical, money-saving compromise. The reason being, anything you pay over the minimum required monthly payment is applied straight to the principal balance. This allows you to pay the home off sooner and save on the interest, because no interest was applied to the portion of your payments that exceeded the minimum required amount.

LOAN PROCESS

How long does it take to get pre-qualified for a home loan?

Becoming pre-qualified is quick and simple and can usually be done in a matter of minutes. We refer to "pre-qualification" as the first step in The Loan Process, because it's important to know how much you can borrow before you begin looking at homes.

To start the pre-qualification process, you can apply online or over the phone with one of our Loan Officers. After you provide some basic information to your Loan Officer, your credit will be pulled and a pre-qualification letter may be issued. Sometimes, further information and documentation may be needed before a pre-qualification letter can be generated.

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

Often times, these two terms are used interchangeably. However at Network Funding, we differentiate between the two.

Pre-Qualification means you've communicated with one of our Loan Officers and they have reviewed your application and calculated the type and amount of financing you are eligible to receive.

Pre-Approval on the other hand, means that your application has been processed and underwritten and that you've received a credit approval. All that is left at this point is to find a property and get it under contract.

Most people when they refer to "Pre-Approval" actually mean "Pre-Qualified." If you have any questions as to whether or not you need one or the other, simply ask your Loan Officer.

What is involved in Loan Origination?

Loan Origination is the initial part of The Loan Process. It involves the application (receipt of the borrower's information), the selection of the loan program, generation of the loan disclosures and the gathering of the borrower's documents ("Items Needed" List).

Once the loan disclosures have been signed by all parties and all of the necessary documentation has been received from the borrower, the loan file is ready for the second phase in The Loan Process: "Processing."

Your Loan Officer is responsible for getting your loan file ready for "Processing." Your Loan Officer will guide you through this and all of the remaining stages of The Loan Process.

What is involved in Processing?

Processing is the second phase in The Loan Process. It involves ordering additional documents (also called "Set-Up") and preparation ("Processing") of the loan file for Underwriting.

This phase is handled by your Loan Officer's Processor or team of Processors. They will be reaching out to your employer to verify employment, order your appraisal, retrieve tax transcripts from the IRS, and verify your identity. The processors also make sure that everything the underwriter will need to see is in the loan file and ready for submission.

Network Funding places a huge emphasis on Processing, because quality Processing directly impacts turn-times in Underwriting. Oftentimes, you may be asked for additional documentation, before your loan is submitted to Underwriting.

Depending on your Loan Officer's arrangement with the Processor, you may hear from either or both of them throughout this stage of The Loan Process.

What is involved in Underwriting?

Underwriting is the third phase in The Loan Process. It involves the approval of your loan. This is done by an Underwriter, who reviews the loan application and subsequent documentation and decides whether or not you will be approved for the financing you've applied for.

While this phase can be nerve-racking for some, the reality is Underwriting is pretty straightforward. Ideally, your Processor should know (before the loan is even submitted to underwriting), whether or not there will be any trouble in Underwriting. While this isn't always the case, it is the goal of our processing.

Most approved loans come out with conditions. Conditions are items that must be satisfied before the Underwriter can "Clear" the file for Closing. Once all of the conditions have been satisfied, the Underwriter will issue the "Clear-to-Close" (CTC).

You will not hear directly from the Underwriter, during The Loan Process. Once the approval decision has been made, or the CTC has been issued, you will be notified accordingly by your Loan Officer.

What is involved in Closing/Consummation?

Closing (i.e. Consummation) is the fourth and final phase of The Loan Process. Closing is handled by our Closing Department. Your loan is assigned to a Closer who coordinates with the title company's Consummation Officer to generate the Closing Disclosure (CD). The Closer also works with the document attorneys to draft the rest of the closing documents that you will sign at the Loan Consummation.

Once the CD has been issued, you will have at least 3 days to review the CD prior to Consummation. The CD will tell you how much you need to bring to the Loan Consummation, as well as how accurate the Loan Estimate (LE) was that you received with your Disclosures at the beginning of The Loan Process. If there are any variations in the projected versus actual Closing Costs, they will be reflected on the CD.

After the required 3 Days have passed for you to review the CD, you will be able to close on the financing of your home! Once you have signed all of the documentation at Consummation, the lender will fund the loan.*

**Note: some refinances require additional "seasoning" time (rescission period) of 3 days before funding can be issued.*

How do closing costs work, and what do they include?

Closing costs are the fees associated with financing a home. Some closing costs are fixed, while some vary based on loan amount and/or home value. Also, some of the Closing Costs are Network Funding's fees, while others are for third party service providers (such as the title company, appraiser, surveyor, etc).

A breakdown of the closing costs is provided to you at the beginning of The Loan Process, in the form of a Loan Estimate (LE).* Network Funding is required to provide reasonable and accurate estimates of third party service provider fees (fees that we do not control).

It is also worth noting that some closing costs are allowed to be covered in-part or in-full by the home seller. The amount of closing costs the seller can cover varies from one loan product to another. Make sure you ask your Loan Officer how much the seller may be able to cover for your particular transaction, before you enter into a sales contract.

**Note: On 10/3/15, the "LE" replaced what was historically referred to as the GFE (Good Faith Estimate) & TIL (Truth In Lending) disclosure documents.*

REFINANCING

What is Refinancing, and how does it work?

Refinancing is the process of replacing your current/existing* mortgage with a new loan that is more favorable to you. The Loan Process of refinancing your home is very similar to financing the purchase of a new home. The main difference being, instead of paying off a seller and the seller's mortgage company, we're simply paying off your current mortgage lien. Regardless if your previous lien was with Network Funding or someone else, we have the ability to refinance it for you (as long as you and your home still qualify for the financing).

Whether you need to take cash out (liquidate your current equity), shorten or lengthen the term of your loan, or simply improve the interest rate from what you have on your current mortgage, refinancing could make sense for you for any number of different reasons.

**note: it is possible to still refinance, even if you own your home "free and clear" (i.e. no current mortgage)*

What are the benefits of refinancing?

Refinancing a home mortgage can be beneficial in multiple ways. The reason most people refinance is to take advantage of lower monthly payments and/or lower interest rates.

Homeowners with an Adjustable Rate Mortgage (ARM) may refinance before their interest rate increases, and attempt to secure a Fixed Rate Mortgage with a more stable payment structure.

Homeowners may also choose to cash out the equity in their home to pay off debt or do upgrades to their home.

If homeowners find themselves with added cash flow, some choose to pay off their mortgage loan sooner than expected. In this case, switching from a 30 year mortgage to a 20 year mortgage (or less) can help homeowners avoid paying unnecessary interest, and reach their goal sooner.

How can I be sure that refinancing is right for me?

When evaluating whether or not you should refinance your home, the main question to ask is, "How does this benefit me?" The underwriters will ask the same question. Some helpful things to consider include:

- Will it lower my monthly payment?
- Will it lower my interest rate?
- Will it help me become debt-free sooner?
- Will it give me any needed cash from my current equity?
- What will it cost me to refinance? See answer to, *"How much does a refinance cost?"*

Our Loan Officers are here to help examine the terms of your current mortgage to ensure that the total cost of refinancing will provide the intended financial benefits.

How much equity do I need to have in my home, in order to benefit from refinancing?

While it is possible to qualify for refinancing with little or no equity, it is best to have at least 20% in equity in order to avoid paying Private Mortgage Insurance (PMI) – which when factored in, may negate the benefits of refinancing. Don't be discouraged if you don't have much equity, you may still qualify through HARP or other refinancing programs through the government.

Can I refinance if I am "under water" with my mortgage loan?

It may be difficult to refinance your home if you are "under water" since you have no equity in your home. But, the federal government has created the Home Affordable Refinance Program (HARP), in order to help homeowners who owe more on their mortgage than their home is worth.

Should I refinance, in order to pay off my car or student loans?

This is a complicated question, because you must make sure that the interest rate on any other loan you plan to pay off is not lower than the refinance rate. It's best to contact a Loan Officer first, to obtain interest rate information. If you can "bundle" your loans into one obligation, the savings can sometimes be significant, making this a great reason to refinance for some people.

However, if there is not enough equity in your home, taking cash-out could cause you to pay mortgage insurance (PMI) as well. You'll also want to evaluate your current loan duration, and make sure that refinancing will not cause you to pay more over time.

Why must I pay for title insurance when I refinance, since I already have a title policy?

Title insurance protects the new lender (even if the new lender is the same as the current lender) against any claims against your title since the last policy was issued. These claims could come from contractors that performed work on your home, other lenders claiming a lien against your property, encroachments to property lines, or easements from improvements made by you or a neighbor, etc.

In most cases when you refinance, your existing mortgage is paid off and a complete new loan is created. Since the existing lien is being paid off, the new lender wants assurance that their lien will be in first position. Some states offer an abbreviated form of title insurance or a discount on the cost of a policy, depending on when the last policy was issued.

When should I not refinance?

See answer to *"How can I be sure that refinancing is right for me?"* There are several other questions you may also want to consider, when deciding whether refinancing is right for you:

- Will I be staying in the house much longer? If not, the cost of refinancing may not be recouped by the time you move from the home.
- Have I been in my home too long? With mortgage loans, the amount of principal paid increases over the life of the loan, known as loan amortization. Over time, the amount of interest paid begins to decline as the amount of principal paid each month begins to increase. If you have already paid enough interest on the loan for an extended period of time, there may be little-to-no benefit to starting this cycle over.
- Is it worth it if my loan starts over? Refinancing into a same term loan (for example, into a new 30-year mortgage, if you're already in a 30-year mortgage) will lengthen your payoff. However, it may still be beneficial, depending on how much interest you will save over the life of the loan.

How much does a refinance cost?

The cost of a refinance varies from one transaction to the next. Most of the financing costs are similar to that of a purchase mortgage. The usual difference being that in a refinance, some (or all) of the costs can be "rolled-into" the loan amount.

Essentially, what happens is the homeowner replaces their current mortgage with a new mortgage that has a slightly higher balance. This increased principal balance can equate to some (or all) of the closing costs, depending on the situation. Ideally, this means the homeowner does not have to bring any "cash" to closing.

As a homeowner considering a refinance, your ability to come to closing without any money "out-of-pocket" will depend on the amount of equity you have in your home.

ESCROW ACCOUNTS

Who is responsible for paying my property taxes and homeowner's insurance?

You, as the borrower, have the responsibility to pay your property taxes, insurance or other assessments on your property, if you do not have an escrow account. If you do have an escrow account, then you are responsible for making timely monthly payments to the escrow account (which is included with your monthly mortgage payment), the Lender will then make sure your property tax and insurance payments are made when they are due.

What is an escrow account?

Escrow accounts are accounts that the lender opens, into which you make monthly payments for property taxes, insurance, or other assessments. The lender pays these items from the escrow account as they become due. An escrow account is sometimes known as an "impound account." The portion of your monthly mortgage payment that is deposited to the escrow account is called the escrow payment.

Escrow accounts are great tools for first time homebuyers and anyone with fixed income, as they help the homeowner pay for the bills monthly rather than having to budget for a large annual expense.

How do I benefit from an escrow account?

Instead of having to come up with a large sum to pay for property taxes or homeowners insurance as they become due, an escrow account provides a convenient way to accumulate these funds through monthly installments.

In most cases, your property tax collector or insurance agent will bill the Lender directly, relieving you of the burden of keeping track of these bills.

What items are included in an escrow account?

When establishing an escrow account, we include all of the following that apply to your property:

- Regular Property Taxes
- Liens and Assessments
- Hazard/Homeowner's Insurance
- Flood Insurance
- Windstorm, Hail or Hurricane Insurance
- Private Mortgage Insurance (PMI)

What items are NOT included in an escrow account?

When establishing an escrow account, we do not include any of the following:

- Special assessments or one-time property taxes (such as a supplemental tax that may be charged after the purchase of the property)
- Water charges, sewer rents, and other similar charges
- Insurance that does not cover the structure of the property, such as a Condominium Contents Policy
- Earthquake insurance that is billed separately from your Hazard/Homeowner's Insurance
- Homeowner's Association fees
- If you purchase additional insurance for life, disability, or other optional insurance, the premium is not part of an escrow account.

How frequently are property taxes and insurance premiums paid?

Property taxes are paid either on a quarterly, semi-annual or annual basis; it varies based on the requirements of each local tax collector. Taxes are paid from escrow when bills are received from the taxing authorities and based on the due date of the tax collector.

If you have an escrow account for insurance, we will pay for the entire term in a single payment. If your policy is continuous until cancelled, we will pay the premium once a year. If you do not have an escrow account for insurance, please contact your insurance agent to determine your payment options.

Can I close my escrow account at any time?

You may request a cancellation of the escrow account from the Lender, if your loan is a conventional loan. The approval from the Lender to cancel the escrow account will be based on such items as the amount of equity in your property and your mortgage payment history. You may be assessed a fee to process the cancellation. If your loan is not eligible for a cancellation of your escrow account, you may need to consider refinancing.

When and why do you establish mandatory escrow accounts?

The FHA and VA require that all loans insured or guaranteed by them have an escrow account and it cannot be closed. If you had a conventional loan, at the time your loan was closed, we may have offered you the option to waive establishing an escrow account if you made a down payment of 20% or more.

When a borrower does not have an escrow account, Lenders expect those borrowers to pay their taxes, insurance and other assessments when due. When these items are not paid timely, the lender's security interest in the property is put at risk, forcing the lender to pay these delinquent amounts. The lender then has the right to establish an escrow account to be repaid, and to accumulate funds for future payment of these items, among other rights.

Why am I charged a fee for not having an escrow account?

Even though you may be given the option to pay your taxes and insurance directly, the lender will continue to have the responsibility to monitor that insurance coverage remains in place and that you pay your taxes when they are due. If you fail to maintain insurance coverage and your home is damaged, the collateral for the mortgage could be affected. If you fail to pay your taxes when due, a lien could be placed on your property that is superior to the mortgage lien. When the lender collects those items as part of your monthly payment, the lender is assured that timely payment and coverage will be maintained. When you pay your taxes and insurance direct, the lender will require a fee to compensate for the monitoring required and the additional risk associated.

What is an escrow analysis?

It is the periodic review of your escrow account to determine if the current escrow account balance and monthly escrow payments will be enough to pay the property taxes, homeowner's insurance, and other bills paid out of escrow when they are due. Adjustments (up or down) to your required monthly escrow payment may result from this analysis.

How often will I receive an escrow analysis statement?

At least once every twelve months (unless your account is delinquent or you have filed for bankruptcy). The Lender will also send you an escrow analysis statement. If your loan is sold to a new investor, an escrow analysis is usually done at the time of the sale. (See: How can my payments change?)

Where do I get information regarding property tax exemption?

Please contact your local Office of the Assessor-Recorder office for further information on exemptions and other property tax assistance programs that are available in your area.

I received my property tax bill. What should I do with it?

If your loan is escrowed for property taxes, please write your loan number on the tax bill and forward it to the Customer Service office of the Lender to whom you are making payments.

A "homeowner's area" is a region where taxing agencies release the tax bills to homeowners only. If you are in a homeowner's area, it is important that you forward these bills to the Lender at least 30 days prior to the delinquency date, to ensure timely payment.

What amount of insurance coverage should I obtain?

We recommend you obtain coverage equal to the replacement cost of the structures and improvements on your property. The minimum amount of coverage we will accept is the lower of

- (a) the replacement cost or
- (b) the remaining principal balance on your loan.

If your property is located in Alaska, Hawaii, Massachusetts, Mississippi, or Washington state, we will also accept coverage that is at least equal to the fair value of the property (replacement cost less depreciation).

Flood insurance requirements are the same as for hazard/homeowners insurance, except that we will never require more than the maximum amount of flood insurance available through the National Flood Insurance Program (NFIP).

What type of hazard insurance coverage do you require?

We require insurance against losses caused by perils covered under an All Risk Policy, or a Standard Fire Policy with a Special Form Endorsement. Special Form is added to a fire policy to provide coverage for all risks, subject to stated exclusions and limitations.

Windstorm exclusions are not allowed. Exclusions for windstorm, hail or hurricane are not acceptable, unless you are able to obtain a separate policy to cover the peril that was excluded from your primary insurance policy.

Will you require a flood insurance policy?

We require flood insurance for properties located in a Special Flood Hazard Area (SFHA) as shown on maps published by the Federal Emergency Management Agency (FEMA). FEMA produces maps, called Flood Insurance Rate Maps (FIRM) depicting flood hazards across the United States. By law, we must require the purchase of flood insurance for mortgages on buildings shown in the flood zones on these maps.

From time to time, revisions to these maps are made by FEMA and our requirements are adjusted accordingly. This means that if your property was not in a designated flood area but is now in a designated flood area, then we will require you to maintain a flood insurance policy. On the other hand, if your property was in a flood area and is now no longer in a flood area, then we would no longer require you to maintain a flood insurance policy.

Which insurance carrier may I use?

You may choose any insurance carrier that is rated a B+/IV or better in Best's Insurance Guide and licensed or otherwise authorized by law to issue insurance where your property is located. We will also accept policies insured by Lloyds. To determine an insurance carrier's rating, use A.M. Best's Rating Analysis, or ask your insurance agent.

What is a title binder?

Title binders are a form of real estate insurance that covers buyers and sellers from theft and damage during the transfer of ownership. Some agencies require a binder to be in place in order to list a property. Network Funding does not require a binder to be in place.

Will you accept a binder in place of a policy?

Yes. When you apply for insurance, you may receive a binder while your application is being reviewed. A binder is acceptable for up to ninety days from the date it was issued, unless the binder states a shorter term. The original policy must be sent to our office when issued. A second binder will not be accepted.

How long does the insurance policy term need to be?

The policy term must be a minimum of six months or must state that it is continuous until cancelled. Most policies have a term of 12 months.

What is the highest deductible amount you require?

We will accept the lower of: $1,000 or 1% of the amount of coverage.

For condos: if the insurance for your entire building is paid through your homeowner's association, then the highest deductible amount we will accept is 1% of the amount of coverage.

What happens if I don't provide adequate insurance coverage?

If you do not provide us with proof of insurance as required by your agreement with us, we may obtain coverage on your property. Since the policy we may purchase will insure your property without inspection, the cost may be much higher than the amount that you would normally pay. The policy will cover only the structure. It will not protect your personal property nor will it provide you with liability protection of any kind.

What is a mortgagee clause?

A mortgagee clause is an acknowledgment by your insurance company of the interest your lender has in the insurance policy. We require a standard mortgagee clause on all insurance policies. Please give your insurance agent your Network Funding mortgage loan number and the following information for the mortgagee clause:

Network Funding, L.P. Its Successors and/or Assigns,
9700 Richmond Avenue, Suite 320
Houston, TX 71042, Fax Number (714) 973-3303

What steps do I take when my property is damaged?

First, we suggest you contact your insurance agent immediately and file a claim. You should also contact the Customer Service department of the Lender to notify them of the damages. As a general rule, proceeds for claims totaling more than $5,000 will be held by the Lender in a restricted escrow account and disbursed in progress payments as the repairs are completed. Please note that claim settlement checks include the lender as a payee. The lender must endorse these checks before you negotiate them.

What if I want to change insurance companies?

You may choose to change insurance companies at any time, but the procedure you follow will depend on whether you make this change mid-term (before the current policy expires), or when your current policy is up for renewal. Prior to changing carriers, contact the lender's Customer Service department for instructions. As a rule, the following will apply if you pay for insurance through the escrow account:

- Changing Mid-Term: If the lender collects funds through escrow for your insurance and has already paid the premium for your current policy, the lender will not have funds to pay the new policy. In this situation, you must pay the premium for the new policy yourself and send the lender a copy of the new policy along with a paid receipt so we may update our system. You should also cancel the old insurance policy, and request a refund of any unused premium. When changing insurance companies, the effective date of the new policy must be the same as the cancellation date of the old policy, so there is no lapse in coverage.
- Changing At Renewal: If the lender collects funds through escrow for your insurance and you wish to change insurance companies at the time your current policy comes up for renewal, the lender will pay the premium for the new policy from funds currently held in your escrow account. *However, you must contact Customer Service at least one month prior to the renewal date to advise that you are changing companies, so the lender will not pay the renewal premium for your old policy.* You must also make sure your agent sends the lender the premium billing for the new policy before the old policy expires. When changing insurance companies, the effective date of the new policy must be the same as the expiration date of the old policy, so there is no lapse in coverage.

If you pay your insurance direct and not through escrow, you may change carriers anytime and provide the lender with evidence of the revised insurance. Be sure the agent shows the Mortgage Clause for the lender on the new policy (see *"What is a mortgagee clause"* for information).

What is mortgage insurance?

Mortgage insurance protects the lender and investor, or owner of the loan, against loss if the borrower defaults in their repayment of the loan. This type of insurance is typically required on conventional loans with a down payment of less than 20 percent. Without the added protection of mortgage insurance, most lenders would not be willing to make loans to borrowers with small down payments or would require higher interest rates to offset their risks. Any premiums collected for the payment of mortgage insurance on your loan are remitted to the company or agency providing the insurance coverage. Mortgage insurance is paid as part of your monthly payment or is financed in the loan amount or both.

On FHA loans, the Federal Housing Administration, an agency within the U.S. Department of Housing and Urban Development, provides mortgage insurance.

On Veterans Administration (VA) loans, the insurance is provided by the U.S. government in the form of a loan guarantee based on the veteran's entitlement. No mortgage insurance is required, but a one-time VA Funding Fee is added to the loan amount.

The mortgage insurance on conventional loans is typically referred to as PMI, or Private Mortgage Insurance. Private companies provide this type of mortgage insurance coverage.

As stated above, both PMI and FHA Mortgage Insurance protect the investor who owns the loan in the event of a default on the loan. These types of mortgage insurance are not "life insurance policies" and do not pay off the loan on your behalf if something should happen to you.

Can I cancel my mortgage insurance, if I have an FHA loan?

Mandatory Cancellation - For FHA loans closed on or after January 1, 2001, FHA is required to cancel the monthly mortgage insurance premium after the principal balance, excluding any up-front mortgage insurance premium financed in the loan, reaches 78% of the lower of the initial sales price or appraised value based on the initial amortization schedule.

For FHA loans with case numbers issued on or after June 3, 2013, the MIP will last for the life of the loan and can only be cancelled through paying off the loan or through a refinance.

Borrower Initiated Cancellation - Borrowers whose loans fall between 1/1/01 and 6/3/13 may request through the lender that FHA cancel the monthly mortgage insurance premium, if the unpaid principal balance reaches 78% of the initial sales price or appraised value sooner than projected due to additional payments of principal made by the borrower. Increases in property value do not apply to this calculation. To be eligible, you must not have been more than 30-days late on a payment in the last 12 months. You must contact the lender to request this cancellation.

Can I cancel my mortgage insurance, if I have a conventional loan?

Mandatory Cancellation - Most conventional loans require that the monthly mortgage insurance be cancelled when your loan balance reaches 78% of the original value of your property as determined at time of closing. You should've received a notice at closing from your lender of the date this balance is expected to be reached.

Borrower Requested Cancellation - You have the right to request of the lender that mortgage insurance be cancelled either at the date the principal balance is scheduled to reach 80% of the original value of the property as determined at closing, or as of the date the principal balance actually reaches 80% of the value of the property. To be eligible

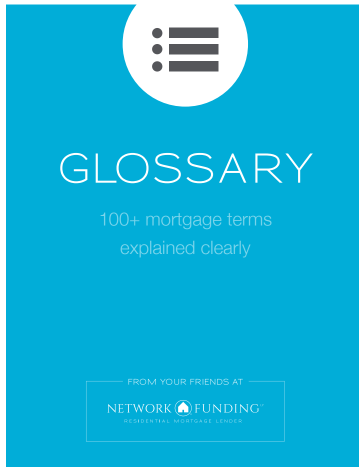
for the lender to consider this request, the following conditions must be satisfied:

You make a written request to the lender for cancellation. You have not been 60-days late on a mortgage payment in the last 2 years or 30-days late in the last 12 months. You are current on payments. You provide, at your expense, evidence satisfactory to the lender of the current value of the property establishing the 80% value requirement. Satisfactory evidence is generally a new appraisal of the property, if a new appraisal is required, the
lender will need to order it and will usually bill you for it. If you order the appraisal on your own, it may be rejected and you will not be reimbursed.

The lender is not required to cancel the insurance even if these conditions are met until the mandatory cancellation requirements are reached, but most lenders will typically give favorable consideration to such requests.

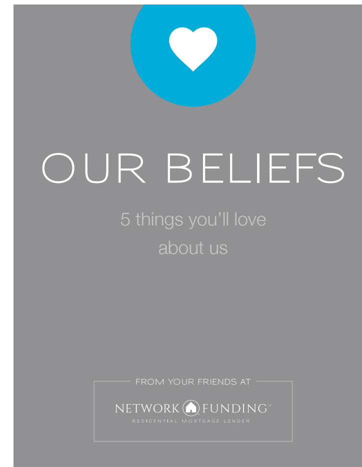
HAVE MORE QUESTIONS?

CHECK OUT THESE OTHER RESOURCES!



MORTGAGE GLOSSARY

100+ MORTGAGE TERMS
EXPLAINED CLEARLY



OUR BELIEFS

5 THINGS YOU'LL LOVE
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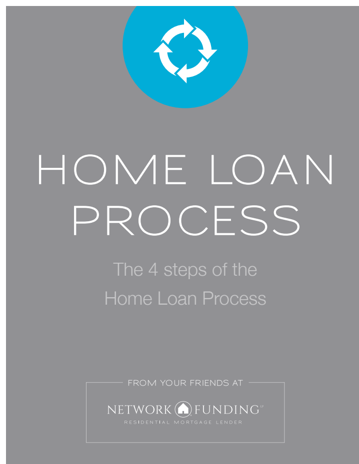
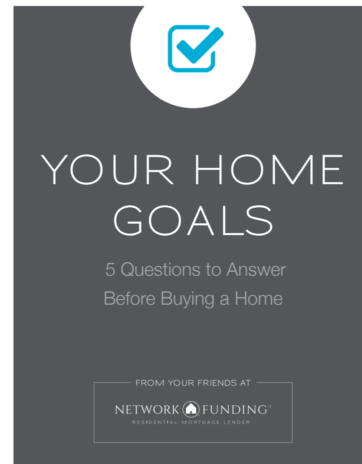


HOME LOAN PROCESS

THE 4 STEPS OF THE
HOME LOAN PROCESS



YOUR HOME GOALS

5 QUESTIONS TO ANSWER
BEFORE BUYING A HOME

READY TO APPLY FOR A MORTGAGE?

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