simplify

buying a home

A home-buying guide from the mortgage team at Stanford Federal Credit Union

contents

simplify

Simplify Buying a Home

We want to help simplify your home-buying experience. This guide is designed to help you understand the basic principles of home loans. Using this guide and the expertise of Stanford FCU's mortgage team, you can evaluate the features and benefits of various home loan programs.

Benefits of Buying a Home

- When filing your federal tax return, you may be able to deduct the interest and local property tax portions of each mortgage payment you make. This could reduce the taxes you pay annually. Consult with your tax advisor regarding tax deductibility of interest.
- With each mortgage payment you make, you build equity. Not only do you increase your personal stake in your home, you also increase your net worth. Plus, as your home value increases (through home improvements you've made or real estate market changes), so does your equity.

We Understand Your Needs

Buying a home is one of the most important financial decisions you will make. Stanford FCU's mortgage team is here to help. We have been making real estate loans to the Stanford community for over 20 years. We understand the unique nature of our members' real estate needs—from first-time home buying, buying on leased land or buying a vacation home. We're large enough to provide the expertise and a wide variety of loan programs; and yet we're small enough to care about you, your comfort and situation.

Speed and Convenience

At Stanford FCU, we understand the value of time. Most importantly, we understand the value of *your* time. Because we know that property moves fast, so do we. That's why we've streamlined our loan application process—using state-of-the-art technology, we can usually get your loan approved in minutes. We provide our members with many application vehicles—you can meet with us in person, apply via telephone or on our Web site at www.sfcu.org.

We Want to Be Your Lender for Life

Stanford FCU is committed to providing our members with the best and most convenient loan programs available. Buying your second home, relocating or refinancing your home just gets easier. Once your mortgage information is in our system, we simply update existing records for your next loan. It's simple, it's fast and it saves you money.

Take Us with You

No matter where you live in the United States, Stanford FCU can be there to serve you. As one of the few credit unions to lend outside of state borders, we can fulfill your first mortgage loan needs now and always.

Full-Service Lender

Stanford FCU offers a full spectrum of mortgage products with competitive rates. Let us simplify buying a home.

To speak with a member of the real estate team or apply via telephone, call (650) 723-2509 or toll free at (888) 723-7328.

To apply or to get information and current rates, visit us on the Web at www.sfcu.org.

Stanford FCU offers a full array of mortgage products:

Preapprovals
Get preapproved before you shop.

Fixed-Rate Mortgage Loans
Know what your payments will be for the term of your loan.

Adjustable-Rate Mortgage (ARM) Loans
Generally lower than fixed-rate mortgages; rate fluctuates based on an index.

3/1, 5/1 and 7/1 Mortgage Loans
Payment is calculated on 30 years at a lower rate, but after the designated period the loan refinances at the current rate.

Balloon Loans
A lower rate with a lump sum due in a specified term.

Interest-Only Mortgage Loans
A fixed-rate loan with interest-only payments for up to 15 years. We also offer 10 year interest-only 3/1, 5/1 and 7/1 ARM loans.

Jumbo Mortgages
Fixed-rate and ARM jumbos to $2 million.

Leased Land Options
Experts on properties purchased on Stanford leased land.

Home Equity Loans
Borrow against the equity in your home for nearly any purpose.

Interest-Only HELOC Loans
Interest-only payments for a set period.

Second Mortgages
Low fixed-rate second trust deed loans.

40-Year Mortgages
Lower monthly payments and a fixed rate for the life of the loan.

Combo Loans
A combination of a first mortgage and a second mortgage.

Construction Loans
Commercial real estate loans up to $10 million.

home loans and how they work

The real estate team at Stanford FCU understands paying cash for a home is no longer a reality for most of us. Home loans make the dream of having a place of your own possible. Whether you're buying your first home, moving up or refinancing your home, Stanford FCU has the technology, knowledge and desire to help you obtain the best mortgage loan for your needs. This guide provides helpful basic principles about the home-buying process. In some cases, general information provided may or may not apply to Stanford FCU loans. For any terms you don't understand, refer to the glossary beginning on page 13, give us a call or visit our Web site at www.sfcu.org. We want to be your lender for life.

Down Payment

The cash you pay toward the purchase of your home is the down payment. A home loan is the money you borrow to pay the balance of the purchase price. Required down payment amounts vary. The down payment may affect the interest rate available on a home loan.

Interest Rate

The interest rate is the basic cost of borrowing money. It is expressed as an Annual Percentage Rate (APR). Stanford FCU has some of the most competitive rates around. For current rates, call (650) 723-2509 or check our Web site at www.sfcu.org.

Term of the Loan

The length of time you have to repay a loan is called the term. In general, the longer the term of the loan, the lower your monthly payments will be. However, a longer term means it will take longer to build equity (ownership) and may cost you more overall than a shorter term. Terms of 10, 15, 20, 30 and 40 years are available at Stanford FCU.

Points

One point is equal to one percent of the amount of money you borrow. For example, if the amount borrowed is $200,000, one point is $2,000. Points are usually charged at the beginning of the loan and are also referred to as loan origination fees or discount points. Each type of loan (and each lender) requires different points.

Closing

Closing transfers ownership from the seller to you. Closing costs include fees you pay for the services of the lender and others involved with the sale of the home. Other costs may include:

- Charges for appraisal
- Loan document preparation
- Tax service
- Title search
- Hazard insurance
- Structural pest inspection
- Credit report
- Environmental reports
- Title insurance

The buyer and seller each pay for certain closing costs. Who pays which costs depends on the custom in the area where the home is located and on negotiations between you and the seller.

Escrow

Until the buyer, seller and lender fulfill the conditions of the agreements, all required money is delivered to a neutral third party. When money is held by the escrow agent, the property is said to be in escrow. The escrow agent prepares documents, pays off existing loans, requests title insurance and divides tax and insurance payments between you and the seller.

Mortgage Tip...

Get preapproved for a loan from SFCU before house shopping. A preapproval lets you know exactly what your price range should be and it makes you a more attractive buyer.

Servicing

Servicing refers to the billing and processing of loan payments. Loans are sometimes sold to a lender other than the one from which you originally borrowed. If this happens, both the original institution and the new holder of your loan are required to notify you. The rate and terms to which you agreed for the original loan will not change regardless of how many times your loan is sold. When you borrow at Stanford FCU, no matter how many times your loan is sold, the servicing will remain through Stanford FCU, in most cases.

Interest-Only Loans

With an interest-only real estate loan, you pay only the interest on the mortgage in monthly payments for a fixed term. After the end of that term (usually five to seven years) you either refinance, pay the balance in a lump sum, or start paying off the principal, in which case the payments may go up substantially.

Fixed-Rate Loans

The interest rate on a fixed-rate loan stays the same during the term of the loan. Your monthly payment will remain fixed (be the same amount) for the entire term of the loan. Fixed rates offer stability and certainty in fluctuating markets. Annual percentage rates for fixed-rate loans are generally higher than those for adjustable-rate loans.

Adjustable-Rate Loans

Adjustable-Rate Mortgages (ARMs) have interest rates that adjust based on changes in economic conditions. Your monthly payments may go up or down depending on market conditions. ARMs usually have an interest rate cap that prevents the interest rate from exceeding a predetermined level. An ARM's lower initial interest rate can be less expensive than a fixed-rate mortgage and may make it easier for you to qualify for a larger loan. Remember, though, that rates may go up in the future. (Refer to page 5 for more information.)

Balloon Loans

Balloon term loan payments are calculated as though the loan will be paid over a 30-year period, but actually have a much shorter term. Stanford FCU balloon loans have terms of five or seven years. At the end of this term, you must refinance or pay off the outstanding balance with a lump sum payment. The interest rate is usually lower than fixed-rate loans. This type of loan can be helpful for those who plan to sell or refinance the property before the balloon payment is due.

Private Mortgage Insurance

Private Mortgage Insurance (PMI) is required by many lenders until the buyer reaches an established level of equity in the home (usually around 20%). PMI is most often billed with your mortgage and can add substantially to your monthly payments.

How Interest Rates Are Established

Interest rates in ARMs are tied to changes in a specified index rate. An index rate usually goes up or down with the general movement of national or regional interest rates. If the index moves up, so will the ARM rate and, in most circumstances, so will your monthly payments. Likewise, if the index goes down, your monthly payments may go down.

To choose among ARM options (or to compare an ARM to a fixed-rate loan), you need to know about the following:

- Initial rate
- Index
- Margin
- Rate and payment adjustments (frequency and limits)
- Deferred interest – also called negative amortization (Stanford FCU does not allow negative amortization.)
- Fully adjusted rate
- Assumability
- Convertibility

APR for Comparing Loan Options

The best measure of the cost of credit is the Annual Percentage Rate (APR). It includes interest as well as other finance charges. All lenders are required to follow the same rules when calculating the APR, so it is the best way for you to compare the overall cost among your loan options.

Prepayment

Under some financial circumstances, you may wish to prepay your loan (or pay it off early). Some lenders require a fee for paying off the loan early. This prepayment penalty can amount to thousands of dollars. Stanford FCU does not charge a fee for prepayment.

Stanford FCU Is with You Wherever You Go

Unlike many financial institutions, Stanford FCU has the ability to make loans throughout the United States. This means that wherever you go, Stanford FCU will be able to serve your mortgage needs, simplifying the loan process—and your life.

A Unique Market

We also know that buying a home in or around the Stanford community is not like buying a home anyplace else in the United States. Because we understand the unique challenges of buying a home in such a competitive market, we utilize technologies such as automated underwriting. This technology simplifies and expedites the loan process, resulting in loan approval in a matter of minutes.

If you're buying a home on leased land, we have a program in place to handle your special needs. The credit union offers mortgages on the Stanford campus and works in conjunction with Stanford Housing Programs such as Housing Allowance Program (HAP), Mortgage Assistance Program (MAP), Deferred Interest Program (DIP), Fixed Rate Amortizing Mortgage (FARM), Down Payment Assistance Program (DPAP), Forgivable Loans and Relocation Programs (RELOC).

You'll find the real estate team at Stanford FCU is equipped, experienced and eager to help you find the right loan for your needs. The approval process is easy and quick. Apply today to get your real estate loan preapproved.

Mortgage Tip...

Stanford FCU makes home buying convenient for you. You can apply for a loan by whatever means is comfortable for you—in person, by telephone or on our Web site at www.sfcu.org.

adjustable and fixed-rate mortgages

Fixed and Adjustable Mortgages

A fixed-rate loan has an interest rate that remains unchanged for the term of the loan. Stanford FCU fixed-rate mortgages are available in a variety of repayment terms, with 10, 15, 20, 30 and 40 years being the most common.

With an Adjustable-Rate Mortgage (ARM), the rate will fluctuate with the rise and fall of interest rates.

Which Is Right for You?

Advantages of a fixed-rate mortgage include:

- You know what your payments will be—today, next year and for the entire term of the loan.
- In a low-interest environment, you can secure a good rate for as long as you hold the loan.

Advantages of an adjustable-rate mortgage include:

- Your rate may start out lower than a fixed-rate mortgage.
- If interest rates do not increase dramatically in the span of time you own your home, you may save money. (If you plan on holding your home for only a short period of time, an ARM may be a good option.)

The mortgage team at Stanford FCU can discuss your needs, the current lending environment and the advantages of different types of loans for your situation.

Adjustable-Rate Mortgages

Some more detailed definitions and explanations regarding ARMs follow.

Margin

The interest rate of an ARM is tied to a financial index. Stanford FCU offers US Treasury-indexed ARMs and LIBOR (London InterBand Offered Rate) ARMs. To establish an ARM interest rate, a set percentage is added to the specified index rate. This percentage is called the margin. The margin is established by the lender and stays the same for the term of the loan. The ARM interest rate is adjusted periodically and is fully indexed when it equals the index plus the margin.

Example:

Index Rate	4.00%
+ Margin	2.75%
ARM Interest Rate (Fully Indexed)	**6.75%**

Discounted Rates

Initial interest rates are often set artificially low to make the loan attractive to the borrower. An initial interest rate that is lower than the index plus the margin is called a discounted rate. It is important for you to consider your ability to afford payments after the discount period ends.

ARM Interest Rate Increases

ARM loans being made today usually have an upper limit on how high your interest rate can go (called a lifetime cap or ceiling). In addition, many ARMs have limits on periodic interest rate adjustments to protect borrowers from the effect of dramatic interest rate fluctuations (periodic caps). Here is how these protections work:

The adjustment date – The interest rate and monthly payments can go up or down on a periodic basis. The date when an interest rate changes is called the interest rate adjustment date. When comparing ARMs, ask how often the interest rate and payment may change. Most ARMs have interest rate adjustments every 6 or 12 months. Some have rate adjustments every three months, or even monthly.

Maximum periodic adjustments – Stanford FCU ARMs have an interest rate adjustment cap (periodic cap), limiting how much your interest rate can change on each adjustment date.

Combo Loans

Combo loans combine a first mortgage with a second mortgage. The reasons these types of loans are appealing are because many homebuyers do not have 20% of the purchase price in cash or do not want to put down 20% to buy a home—and combo loans sidestep the requirement to pay PMI. Common types of combo loans include:

- **80/15/5 –** This scenario involves putting down 5% and financing a first mortgage of 80% of the purchase price, coupled with a second mortgage comprising 15% of the purchase price.
- **80/10/10 –** This scenario involves putting down 10% and financing a first mortgage of 80% of the purchase price, coupled with a second mortgage comprising 10% of the purchase price.

The interest rate on a second mortgage is higher than a first mortgage, but sometimes the total payment is less than a first mortgage with PMI.

Investment Properties and Vacation Homes Loans

An investment property is a property that the borrower owns, but does not occupy. A second home is a property that is located within a reasonable distance from the borrower's principal residence and which the borrower occupies for some portion of the year. The property must be suitable for year-round occupancy (and can, in fact, be occupied by someone other than the borrower—as long as the occupancy is not under a timeshare arrangement). The borrower must have exclusive control over the property. Mortgages secured by investment properties may have only one or two dwellings units.

Other Payment Increases

When index rates drop, monthly payments do not necessarily drop. In fact, with some ARMs, your payment amount may increase even though the index rate has stayed the same. For example, if you are paying a discounted initial interest rate and are reaching the end of the discount period as the index drops, the current fully indexed rate may be higher than your previously discounted rate. This means your interest rate may go up even if the index is declining or remains constant. This may also happen if an interest rate adjustment cap has held your interest rate down below the sum of the index plus the margin, or if your loan has a slow moving index.

New Payment Amount

You will be notified in writing before each interest rate adjustment date. Your notice will include information about the index rate, your new interest rate, the revised payment amount and the outstanding loan balance used to calculate the new payment.

Negative Amortization

An ARM loan that has a payment cap, rather than a rate cap, can create a negative amortization situation. In this case, if there is a payment cap and the index rate rises, the monthly payment could cover only part of the increased interest. The amount of interest not covered by your monthly payment (the deferred interest) would be added to the loan balance (principal) each month. The result of negative amortization is that the amount owed on the loan's principal can increase instead of decrease. None of the standard loans offered by Stanford FCU allows negative amortization.

Bi-Weekly Home Loan Payments

Bi-weekly home loan payments give you the option of paying one half of your monthly home loan payment every two weeks. By paying your home loan every two weeks (52 weeks ÷ 2 = 26 half monthly payments = 13 full month payments) you generate one extra payment each year. The extra payment goes solely toward reducing the principal balance of your home loan.

refinancing your home

Refinancing a home is a common practice in today's economic environment. Home loans are usually refinanced to take advantage of lower interest rates or to switch from one loan type to another. Refinancing in a lower-interest environment can save you money by lowering your monthly payments. In some cases, refinancing can relieve you of paying Private Mortgage Insurance (PMI) or provide you with cash. If you are already a homeowner and you have a high interest rate on your mortgage, you may wish to consider refinancing the loan at Stanford FCU.

Mortgage Tip...

SFCU offers free home-buying seminars throughout the year covering a broad range of topics. For information, visit our Web site at www.sfcu.org.

You May Borrow Additional Amounts for Other Purposes

Refinancing your loan may allow you to borrow more than your existing first mortgage balance, depending on the loan amount and type of loan. Borrowing more than your current loan balance is called a cash out refinance.

Before borrowing more than the original purchase price, be sure to check with your tax advisor.

Refinancing usually involves new loan costs. It is important to weigh the loan costs against the benefits to be gained.

With competitive rates, low fees and favorable terms, refinancing your home loan at Stanford FCU could be a very smart move.

Costs You Can Expect to Pay

Paying points is common on many loans. Points typically range from zero to 3% of the loan amount on an owner-occupied home. (Stanford FCU offers no-cost refinancing on certain loans.) A point is a prepaid finance charge. For example, 1.5 points would be 1.5% of the principal amount of the loan (1.5 points on a $240,000 loan would be $3,600).

In addition, you can expect to pay the following fees based on a first mortgage loan amount of $240,000.

Appraisal (single-family dwelling)	$250-400
Title Insurance	$750-1,000
Escrow Fee	$250
Tax Service	$88
Flood Certification	$20
Underwriting/Credit Report	$100
Document Preparation	$250
Loan Processing	$250

Note: Your actual closing costs will vary depending upon your loan amount and whether your transaction is a purchase or refinance. SFCU fees are subject to change.

home equity loans

Another way to use your home for economic leverage is by securing a home equity loan, which utilizes the equity in your home as collateral for nearly any purpose. A tax-deductible source of funds (check with your tax advisor regarding deductibility), you may use this loan for bill consolidation, education, home improvements, car purchase, vacation, start a business or any other financial need. With a home equity loan you can borrow up to 80% of the value of your property, less any other loans against the property. Fill out the home equity worksheet to the right and see the amount for which you may qualify.

Example:

Estimated market value of home	$400,000
Minus first mortgage	<$200,000>
Equity available	$200,000

Your Home:

Estimated market value of home	$ ________
Minus first mortgage	$ ________
Equity available	$ ________

Example is based on 80% CLTV (Combined Loan-to-Value).

determining what you can afford

Refer to the charts below to calculate how much you can comfortably spend on a home, given your monthly salary, debts and down payment.

Worksheet 1

Your available cash and assets for down payment and closing costs.

Checking account(s) .... $ ______
Savings account(s) .... $ ______
Mutual funds, stocks and bonds .... $ ______
Cash value of life insurance policy .... $ ______
Cash gifts from parents or other relatives .... $ ______
Other assets .... $ ______
Total cash and assets for down payment and closing costs .... $ ______

Worksheet 2

Your monthly debt payments (other than your current housing expenses).

Car payment(s) .... $ ______
Other installment loan payments with ten or more monthly payments remaining (such as furniture, appliances, etc.) .... $ ______
Monthly credit card payment .... $ ______
Student loan payment .... $ ______
Alimony/child support payment .... $ ______
Total monthly debt payments .... $ ______

Worksheet 3

To compute your maximum mortgage loan amount, you can now use the qualifying guidelines below. Special mortgage loan programs may allow you to qualify for a larger loan.

Total gross monthly income .... $ ______ (1)
Multiplied by a debt ratio of 42% .... $ ______ x .42 ______
Total debt allowed .... $ ______
Minus total monthly debt payments (from worksheet 2) .... $ < ______ >
.... = $ ______ (2)
Multiply (2) above, by 80% principal and interest only .... $ ______ x .80* ______
.... = $ ______ (3)

(3) above $ ______ divided by the factor below that coincides with the current mortgage loan interest rate = $ ______ = MAXIMUM LOAN AMOUNT (given your current gross monthly income and debts)

Interest Rate	30-Year P&I Factor	Interest Rate	30-Year P&I Factor
5.5%	.00568	8.5%	.00769
6.0%	.00600	9.0%	.00805
6.5%	.00632	9.5%	.00841
7.0%	.00665	10.0%	.00878
7.5%	.00699	10.5%	.00915
8.0%	.00734	11.0%	.00953

**Based on 20% down payment. Other loan options may be available.*

General guidelines only—your situation may vary. Please contact SFCU for more information.

For current SFCU mortgage rates, visit www.sfcu.org or call (650) 723-2509.

monthly payment calculator

Monthly principal and interest payments on a 30-year fixed-rate loan

Interest Rate (Annual Percentage Rate)

Loan Amount	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%
$ 150,000	805.23	851.68	899.33	948.10	997.95	1048.82	1100.65	1153.37	1206.93
$ 200,000	1073.64	1135.58	1199.10	1264.14	1330.60	1398.43	1467.53	1537.83	1609.25
$ 250,000	1342.05	1419.47	1498.88	1580.17	1663.26	1748.04	1834.41	1922.28	2011.56
$ 300,000	1610.46	1703.37	1798.65	1896.20	1995.91	2097.64	2201.29	2306.74	2413.87
$ 350,000	1878.88	1987.26	2098.43	2212.24	2328.56	2447.25	2568.18	2691.20	2816.18
$ 400,000	2147.29	2271.16	2398.20	2528.27	2661.21	2796.86	2935.06	3075.65	3218.49
$ 450,000	2415.70	2555.05	2607.90	2844.31	2993.86	3146.47	3301.94	3460.11	3620.80
$ 500,000	2684.11	2838.95	2997.75	3160.34	3326.51	3496.07	3668.82	3844.57	4023.11
$ 550,000	2952.52	3122.84	3297.53	3476.37	3659.16	3845.68	4035.71	4229.02	4425.42
$ 600,000	3220.93	3406.73	3597.30	3792.41	3991.81	4195.29	4402.59	4613.48	4827.74
$ 650,000	3489.34	3690.63	3897.08	4108.44	4324.47	4544.89	4769.47	4997.94	5230.05
$ 1,000,000	5368.22	5677.89	5995.51	6320.68	6653.02	6992.15	7337.65	7689.13	8046.23
$ 1,500,000	8052.32	8516.84	8993.26	9481.02	9979.54	10488.22	11006.47	11533.70	12069.34
$ 2,000,000	10736.43	11355.78	11991.01	12641.36	13306.05	13984.29	14675.29	15378.27	16092.45

Monthly principal and interest payments on a 15-year fixed-rate loan

Interest Rate (Annual Percentage Rate)

Loan Amount	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%
$ 150,000	1186.19	1225.63	1265.79	1306.66	1348.24	1390.52	1433.48	1477.11	1521.40
$ 200,000	1581.59	1634.17	1687.71	1742.21	1797.66	1854.02	1911.30	1969.48	2028.53
$ 250,000	1976.98	2042.71	2109.64	2177.77	2247.07	2317.53	2389.13	2461.85	2535.67
$ 300,000	2372.38	2451.25	2531.57	2613.32	2696.48	2781.04	2866.96	2954.22	3042.80
$ 350,000	2767.78	2859.79	2953.50	3048.88	3145.90	3244.54	3344.78	3446.59	3549.93
$ 400,000	3163.17	3268.33	3375.43	3484.43	3595.31	3708.05	3822.61	3938.96	4057.07
$ 500,000	3953.97	4085.42	4219.28	4355.54	4494.14	4635.06	4778.26	4923.70	5071.33
$ 550,000	4349.36	4493.96	4641.21	4791.09	4943.56	5098.57	5256.09	5416.07	5578.47
$ 600,000	4744.76	4902.50	5063.14	5226.64	5392.97	5562.07	5733.91	5908.44	6085.60
$ 650,000	5140.16	5311.04	5485.07	5662.20	5842.38	6025.58	6211.74	6400.81	6592.73
$ 1,000,000	7907.94	8170.83	8438.57	8711.07	8988.28	9270.12	9556.52	9847.40	10142.67
$ 1,500,000	11861.90	12256.25	12657.85	13066.61	13482.42	13905.19	14334.78	14771.09	15214.00
$ 2,000,000	15815.87	16341.67	16877.14	17422.15	17976.57	18540.25	19113.04	19694.79	20285.33

mortgage summary

Where to Get Information

Before you actually turn in your loan application papers and pay fees, be sure to ask for all the information about the loan you are considering. It is important that you understand index rates, margins, caps and other ARM features such as deferred interest and negative amortization. There is also helpful information in advertisements and disclosures, which are subject to certain federal standards. Stanford FCU's real estate team is comprised of mortgage experts. Be sure to ask us any questions that may arise throughout the process. We are here to serve you.

Advertising

Home loan information will probably come to you first from newspaper advertisements placed by builders, real estate brokers and lenders. While this information can be helpful, keep in mind that the ads are designed to make the home loan look as attractive as possible. These ads may promote low initial interest rates and monthly payments, without emphasizing that the rates and payments may later increase substantially. Be sure to get all the facts.

Mortgage Tip...

Take a look at the mortgage section on our Web site at www.sfcu.org. You'll find information and calculators to help you determine how much you can afford, what your payments will be and what the most advantageous term is for you.

Disclosures

Lenders are required by federal law to give you information about the kind of home loan for which you have applied. This information includes the circumstances under which the rate could increase (such as a rise in the index), what the effects of an increase would be (such as an increase in your payments or in the length of the loan) and any limitations on the increase (such as any interest rate caps).

The selection of a home loan lender may be the most important financial decision you will make. The interest paid on the home loan may equal two to three times the original loan amount of the home. You are entitled to all the information you need to make the right decision. Don't hesitate to ask questions about home loan program features and keep asking until you are given clear and complete answers.

applying for a loan

Here are the steps to apply for a Stanford FCU home loan:

1) Apply via our Web site at www.sfcu.org or call the Stanford FCU mortgage team at (650) 723-2509.

2) Call and make an appointment for a loan interview. We can conduct your loan interview in person or over the telephone, whichever is more convenient for you.

3) Prior to your interview, gather and complete the required documentation shown in the checklist on page 12.

Loan Interview

Be prepared for the loan interview with all of the necessary information readily available before you meet with the loan officer (including addresses with ZIP codes, phone numbers, dates of employment, etc.). Refer to the checklist on page 12.

Qualification

Generally, mortgage lenders require that your monthly mortgage payment (including taxes, insurance and homeowners' association fee, if any) not exceed approximately 33 percent of your gross monthly income, and your monthly mortgage payment plus existing debt payments, not exceed approximately 42 percent of your monthly gross income. Stanford FCU has programs available for members with higher debt ratios. Be sure to speak with our mortgage team about Stanford FCU's portfolio loan products. These loan products often allow for more flexibility than standard mortgage loans.

The Loan Application

A member of our mortgage team can help you fill out the loan application if you have not already done so. You may also apply online via our Web site at www.sfcu.org. It's easy and, in most cases, you can obtain approval in minutes. The application is designed to provide the information Stanford FCU needs to evaluate your ability to meet the requirements of a home loan. It is very important that you provide all of the information requested on the application in order to assist us in making an accurate and equitable decision on your loan request. Providing all the requested information up front will expedite the application and approval process.

Stanford FCU considers the "four Cs" of credit:

Capacity – Can you repay the debt? Stanford FCU will ask for employment information—your occupation, how long you've worked and how much you earn. We'll also want to know your expenses—how many dependents you have, whether you pay alimony or child support and the amount of your other obligations.

Credit history – Will you repay the debt? We look at your credit history—how much you owe, how often you borrow, whether you pay bills on time and whether you live within your means. We'll also look for signs of stability—how long you've lived at your present address and how long you've worked at your present job.

Capital – Do you have enough cash for the down payment and closing costs? Do you need a gift from a relative? Will you have any savings left after your home purchase, or will you exhaust your savings in securing the loan?

Collateral – Will Stanford FCU be fully protected if you fail to repay the loan? Lenders want to be sure the property you are buying has sufficient value to back up your loan.

Locking in the Current Rate

If it seems possible that interest rates may rise during the time the loan is being processed, the lender may agree to lock in the current rate (and points if applicable) for a given period. Find out when the lock-in takes effect and how long it remains in effect. Stanford FCU allows you to lock in your rate for up to 30 days with no fees.

For current rates, check our Web site at www.sfcu.org or call the mortgage department at (650) 723-2509.

Estimates of Closing Costs

Within three business days after your home loan application has been received, we will provide an itemized estimate of the costs to settle (or close) the loan. This form is called a good faith estimate. We will also give you copies of the Truth-in-Lending Disclosures and the government publication *A Home Buyer's Guide to Settlement Costs*.

What to Expect from the Application Process

At Stanford FCU we've streamlined our loan application process to ensure a quick decision.

Loan Qualification Criteria

Purchasing a home requires assessing what you can afford. The loan decision process takes into account your assets, liabilities, income and credit history. As a general rule, your monthly housing expenses should be no more than 33% of your pre-taxed income (this includes paying your mortgage, insurance and taxes). If your ratio is higher, Stanford FCU has a wide array of products to meet your specific needs. Simply talk to one of our home loan experts to get the right loan program designed just for you.

Loan Processing

An appraisal of the property will be requested, along with a credit report for you and any co-borrowers. In addition, the information on your loan application will be verified.

Timeline

Stanford FCU has implemented automated underwriting, a technology that speeds the initial approval process to within minutes. The process from application to closing the loan will typically take from 21 to 45 days. You can speed up the process by submitting a thoroughly completed loan application and by promptly providing any additional information requested.

Speeding Up the Approval Process

Stanford FCU offers members a streamlined level of processing and will do everything possible to make this a smooth and efficient transaction. We require limited documentation for loan analysis and approval. Having the items on the checklist below available at the loan submission and interview will expedite the application process.

checklist

Please have these items available during the loan interview:

- ❏ Completed and signed loan application
- ❏ Purchase Sale Agreement (not required for prequalification)
- ❏ Most recent pay stub(s) from your employer (with year-to-date income covering at least a 30-day period; a year-end pay stub is also required if the most recent pay stub is prior to January 31)
- ❏ Copies of most recent W-2s for each applicant
- ❏ Signed copies of business and personal federal income tax returns for the two previous years if you are self-employed or using income from rental properties or commissions
- ❏ Two most current monthly bank statements for each depository asset used toward funds to close and to meet any reserve requirements
- ❏ Information on homeowner insurance company, agent's name and telephone number
- ❏ Permanent resident alien must supply copy of both front and back of Green Card

glossary of terms

The real estate industry has its own unique language and, without some knowledge of this language, you may find yourself confused if you become involved in a real estate transaction. Here is an index and explanation of commonly used terms and phrases in the real estate industry.

NOTE: The following terms are defined only in their real estate or title insurance contexts and may have completely different meanings in other contexts. For more precise definitions, check with your tax advisor or attorney.

Abstract – A history of all transactions shown in the public records affecting a particular tract of land.

Abstract Plant – See Title Plant.

Adjustable-Rate Mortgage (ARM) – Mortgage loans under which the interest rate is periodically adjusted, in accordance with some market indicator, to more closely coincide with the current rates. The extent and number of these adjustments are agreed to at the inception of the loan.

Adverse Possession – The possession, by one person, of land belonging to another in a manner deemed adverse to the interest of the owner. In most states, by operation of law, title to the land becomes vested in such person after a fixed number of years if the owner fails to assert his or her rights.

Affidavit – A written statement made under oath before a notary public or other judicial officer.

Agreement – A legally binding contract made between two or more persons.

ALTA (American Land Title Association) – The trade association of the title insurance industry, which has adopted certain insurance policy forms to standardize coverage on a national basis.

Amortization – Payment to reduce the principal of a debt in regular, periodic installments.

Appraisal – A report from an independent third party detailing the estimated value of real estate.

Appurtenance – A right or privilege that is a part of the ownership of property, such as a right of way to a highway across the land of another. Water rights are also an example.

Assessment – (1) The valuation of real estate for purpose of taxes or special improvement charges. (2) The amount of taxes or special improvement charges. Special improvement charges are usually for the costs of streets, sidewalks, sewers, etc.

Assignment – (1) The act of transferring an interest, such as a loan secured by a mortgage, from one person to another. (2) The instrument or paper by which one person transfers such ownership to another.

Attorney's Opinion – A statement by an attorney as to the validity of a title, arrived at after investigation of the history of the title as recorded in the public records.

Back Title Letter – Also called "back title certificate" in some areas, and "starter" in others. When titles previously have been examined up to a certain date by reliable examiners, title companies sometimes give subsequent examiners of such titles a letter that sets forth the condition of the title at the time of the previous examination and authorizes them to begin their subsequent examination with the terminal date of the previous examination.

Balloon Note – A form of promissory note that calls for the minimum payment of principal and the payment of interest at regular intervals. This type of note requires a substantial final payment, which represents all the principal.

Bankruptcy – A proceeding in U.S. District Court wherein assets of an insolvent debtor are protected and distributed in an equitable manner.

Binder – Sometimes called "preliminary certificate" or "commitment." (1) A preliminary report as to the condition of a title and a commitment to issue a title insurance policy in a certain manner when certain conditions are met. (2) A deposit in escrow of a small part of the purchase price of real estate as evidence of good faith and to bind an agreement to purchase.

Certificate of Title – A certificate issued by a title examiner stating the condition of a title.

Chain – In real estate measurements (surveying), a chain is 66 feet long or 100 links, each link being 7.92 inches. The measurement may change when used in fields other than surveying.

Chain of Title – The successive ownerships or transfers in the history of title to a tract of land.

Claim – An adverse right or interest asserted by one party against another or against an insurer or indemnitor. Claims may arise from unpaid debts or taxes, as well as from hidden title defects such as fraud, forgery, missing heirs, etc.

Clear Title – Real property ownership free of liens, defects, encumbrances or claims.

Closing – Also called "settlement." A meeting of all parties involved in a property transaction during which the transaction is consummated.

Clouded Title – An irregularity, possible claim or encumbrance that, if valid, would adversely affect or impair the title.

Coinsurance – Two or more policies of title insurance issued by different insurers, each covering a portion of the same risk, which together provide total coverage of the risk.

Commitment – Also called "binder." A document issued by a title insurance company that contains the conditions under which a policy of title insurance will be issued.

Condemnation – (1) The taking of private property for a public purpose, with compensation to the owner under the right of eminent domain. Governmental units, railroads and utility companies have the right to condemn and take private property. (2) The destruction by government of private property that imperils the life, health or safety of the public.

Conventional Loan – A loan secured by a mortgage or deed of trust for which the loan-to-value ratio is within an acceptable range for a particular lending institution.

Conveyance – The transfer of title to property from one person to another.

Covenant – A formal agreement or contract between two parties in which one party gives the other certain promises and assurances, such as covenants of warranty in a warranty deed.

Courtesy – A right that a husband has in his wife's property at her death. It does not exist in all states.

Dedication – The setting aside of certain land by the owner and declaring it to be for public use. Examples: streets, sidewalks and parks.

Deed – A document through which a conveyance of property is effected.

Deed Restriction – A covenant contained in a deed imposing limits on the use or occupancy of the real estate or the type, size, purpose or location of improvements to be constructed on it.

Defect – A blemish, imperfection or deficiency. A defective title is one that is irregular and faulty.

Depreciation – Loss in value occasioned by ordinary wear and tear, destructive action of the elements, or functional or economic obsolescence.

Devise – A gift of real estate made by a will.

Dominant Estate – The property for the benefit of which a right-of-way easement exists across another's adjoining piece of land is said to be the dominant estate. The land across which the easement runs is said to be the servient estate.

Dower – A right that a wife has in her husband's property at the time of his death. Does not exist in all states.

Earnest Money – A deposit of funds by the purchaser of a piece of real estate as evidence of good faith.

Easement – A right to use all or part of the land owned by another for a specific purpose. An easement may, for example, entitle its holder to install and maintain sewer or utility lines.

Eminent Domain – The right of a government to take privately owned property for public purposes under condemnation proceedings subject to payment of its fair market value.

Encroachment – Any building, improvement or structure located on one property (such as a wall, fence or driveway) that intrudes upon the property of another.

Encumbrance – Any interest, right, lien or liability attached to a parcel of land (such as unpaid taxes or an unsatisfied mortgage) that constitutes or represents a burden or charge upon the property.

Equity – The market value of real property, less the amount of existing liens.

Escheat – The reversion of property to the state when an owner dies leaving no legal heirs, devisees or claimants.

Escrow – A method of closing a real estate transaction in which all required documents and funds are placed with a third party for processing and disbursement.

Estoppel – A legal restraint that stops or prevents a person from contradicting or reneging on his previous position or previous assertions or commitments.

Examination – The study of the instruments and muniments incident to a chain of title to determine their effect and condition in order to reach a conclusion as to the status of the title.

Exception – A provision in a title insurance binder or policy that excludes liability for a specific title defect or an outstanding lien or encumbrance.

Execute – To sign a legal instrument. A deed is said to be executed when it is signed, sealed, witnessed and delivered.

Fannie Mae (FNMA) – Federal National Mortgage Association. A private corporation dealing in the purchase of first mortgages.

Fee Simple Deed – The absolute ownership of a parcel of land. The highest degree of ownership that a person can have in real estate, which gives the owner unqualified ownership and full power of disposition.

FHA (Federal Housing Administration) – A federal agency that insures first mortgages, enabling lenders to lend a very high percentage of the sale price.

Fixed-Rate Mortgage – A mortgage having a rate of interest that remains the same for the life of the mortgage.

Fixtures – Personal property that is attached to real property and is legally treated as real property while it is so attached. Examples: medicine cabinets, window blinds and chandeliers.

Foreclosure – A legal proceeding in which real estate secured by a mortgage or deed of trust is sold to satisfy the underlying debt.

Forgery – The fraudulent signing of another's name to an instrument such as a deed, mortgage or check.

Freddie Mac (FHLMC) – Federal Home Loan Mortgage Corporation. A federal agency that purchases both conventional and federally insured first mortgages from members of the Federal Reserve System and the Federal Home Loan Bank System.

Ginnie Mae (GNMA) – Government National Mortgage Association. A federal association working with the FHA that offers special assistance in obtaining mortgages and purchases mortgages in the secondary market.

Grant – To bestow or confer, with or without compensation, a gift such as land or money by one having control or authority over the gift.

Grantee – One to whom a grant is made.

Grantor – One who makes a grant.

Hereditaments – Any and all kinds of estates, interests and rights in real estate that can be inherited.

Homeowners' Insurance – Real estate insurance protecting against loss caused by fire, some natural causes, vandalism, etc., depending on the terms of the policy. Also includes coverage such as personal liability and theft away from home.

HUD (Department of Housing and Urban Development) – The federal department responsible for the major housing programs in the United States.

Index – (1) An alphabetical listing in the public records of the names of parties to recorded real estate instruments together with the book and page number of the record. (2) The listing in abstract and title plants of recorded real estate instruments in groups according to land descriptions, known as a geographic index. (3) The alphabetical listing in abstract and title plants, by names of the parties, of all recorded instruments that affect but do not describe particular real estate, such as judgments, powers of

attorney, wills and probate proceedings. Such indexes are known by various names, such as "general index," "judgment index" and "name index."

Instrument – Any written document having a legal effect.

Judgment – The determination of a court regarding the rights of parties in an action. A judgment of debt on a property owner can create a lien on all of that owner's land within a certain jurisdiction.

Junior Mortgage – A mortgage lower in lien priority than another.

Leasehold – The right to possession and use of land for a fixed period of time. The lease is the agreement that creates the right.

Lessee – A tenant holding a leasehold.

Lessor – A landlord; one who gives a leasehold to a lessee.

License – Permission to go upon or use the land of another, the permission being a personal privilege and not constituting an interest in the land.

Lien – A monetary charge imposed on a property, usually arising from some debt or obligation.

Lien Waiver – Also called "waiver of liens." A waiver of mechanic's lien rights, signed by contractors or subcontractors.

Link – In surveying, a length of 7.92 inches.

Loan Policy – Also called "mortgage policy." A title insurance policy insuring a mortgagee, or beneficiary under a deed of trust, against loss caused by invalidity or unenforceability of a lien, or loss of priority of the mortgage or deed of trust.

Lis Pendens – A legal notice intending to bind third parties of litigation claiming an interest in real estate.

Lot – Generally, any portion or parcel of real property. Usually refers to a portion of a subdivision.

Market Value – The average of the highest price that a buyer, willing but not compelled to buy, would pay and the lowest price a seller, willing but not compelled to sell, would accept.

Mechanic's Lien – A lien on real estate, created by operation of law, that secures the payment of debts due to persons who perform labor or services or furnish materials incident to the construction of buildings and improvements on the real estate.

Metes and Bounds – A land description in which boundaries are described by courses, directions, distances and monuments.

Mortgage – A conditioned pledge of property to a creditor as security for the payment of a debt.

Mortgage Insurance – Insurance written by an independent mortgage insurance company protecting the mortgage lender against loss incurred by a mortgage default, thus enabling the lender to lend a higher percentage of the sale price.

Mortgagee – The holder of a mortgage. The party to whom a mortgage is made, generally the lender.

Mortgagee Policy – See Loan Policy.

Mortgagor – A person who mortgages property. A person who executes a mortgage, generally the property owner.

Multiple Listing – The pooling in a central bureau of listings of properties for sale. These listings are held individually by members of a group of real estate brokers, with the agreement that any member of the group may sell the properties and, in the case of a sale, the commission will be divided between the broker making the sale and the broker who filed the listing.

Muniments of Title – Written evidence (documents) that an owner possesses to prove his or her title to property.

Note – Also called "promissory note." A written promise to pay a sum of money, usually at a specified interest rate, at a stated time to a named payee.

Owner's Policy – A policy of title insurance insuring an owner of real estate against loss occasioned by defects in, liens against or unmarketability of the owner's title.

Plat – Also called "plat map." A map dividing a parcel of land into lots, as in a subdivision. A plat book contains the plat maps for a given area.

Point – Also called "commission points" or "discount points." One percent of the amount of the loan.

Premium – The amount payable for an insurance policy.

Prescriptive Easement – A right to use another's property that is not inconsistent with the owner's rights and that is acquired by an open, notorious, adverse and continuous use for the statutory period, for example 20 years.

Principal – (1) A sum of money owed as a debt on which interest is payable. (2) A person who empowers another to act as his representative or agent. (3) The person having prime responsibility for an obligation as distinguished from one who acts as a surety or endorser.

Purchase Money Mortgage – A mortgage given by a purchaser to a seller on the subject property to secure payment of a part of the purchase price.

Quit Claim Deed – A deed that does not imply that the grantor holds title, but that surrenders and gives to the grantee any possible interest or rights that the grantor may have in the property.

Real Estate – Also called "real property." (1) Land and anything permanently affixed to the land, such as building, fences and those things attached to the buildings, such as light fixtures, plumbing and heating fixtures, or other such items that would be personal property if not attached. (2) May refer to rights in real property as well as the property itself.

Recording – The noting in a public office of the details of a legal document—such as a deed or mortgage—affecting the title to real estate. When such an instrument is properly recorded, it is considered to be a matter of public record. Legally, that means that all subsequent purchasers are deemed to have constructive knowledge of that information.

Reinsurance – A contractual relationship between two insurance companies under which one insurer assumes a portion of the risk of the insurance policy written by the other.

Release – (1) To relieve from debt or security or abandon a right, such as the release of a mortgage lien from a part or all of the land mortgaged. (2) The instrument effecting a release.

Restrictions – Limitations on the use of property imposed or created by deeds or other documents in the chain of title. A restriction, for example, may prohibit the placement of trailer or the construction of a commercial structure on the property.

Riparian Rights – The rights of owners of lands bordering watercourses that relate to the water and its use.

Sale Agreement – A contract entered into between a buyer and seller, setting forth the terms, provisions and conditions of a sale of real estate.

Sale and Leaseback – The sale of an asset to a buyer who immediately leases it back to the seller.

Search – A careful exploration and perusal of the public records in an effort to find all recorded instruments relating to a particular chain of title.

Second Mortgage – A mortgage ranking in priority immediately below a first mortgage.

Subordination – The act or process by which a person's rights are ranked below the rights of others. For example, a second mortgagee's rights are subordinate to those of the first mortgagee.

Surety – (1) A person who agrees to be responsible for a debt or obligation of another. (2) The pledge or agreement by which one undertakes responsibility for the debt or obligation of another.

Title – (1) A combination of all the elements that constitute the highest legal right to own, possess, use, control, enjoy and dispose of real estate or an inheritable right or interest therein. (2) The rights of ownership recognized and protected by the law.

Title Covenants – Covenants ordinarily inserted in conveyances and in transfers of title to real estate for the purpose of giving protection to the purchaser against possible insufficiency of the title received. A group of such covenants known as "common law covenants" includes: covenants against encumbrances; covenants for further assurance (in other words, to do whatever is necessary to rectify title deficiencies); covenants of good right and authority to convey; covenants of quiet enjoyment; covenants of seisin; covenants of warranty. (See Warranty or Covenant.)

Title Defect – (1) Any possible or patent claim or right outstanding in a chain of title that is adverse to the claim of ownership. (2) Any material irregularity in the execution or effect of an instrument in the chain of title.

Title Insurance Policy – A contract of title insurance under which the insurer, in keeping with the terms of the policy, agrees to indemnify the insured against loss arising from claims against the insured interest.

Title Plant – Also called "abstract plant" in some areas. A geographically filed assemblage of title information that helps in expediting title examinations, such as copies of previous attorneys' opinions, abstracts, tax searches and copies or take-offs of the public records.

Underwriter – An insurance company that issues insurance policies to the public or to another insurer.

Variable Interest Rate – Also called "flexible interest rate." An interest rate that fluctuates as the prevailing rate moves up or down. In mortgages, there are usually maximums as to the frequency and amount of fluctuation.

Veterans Administration (VA) Loans – Housing loans to veterans by banks, savings and loans, or other lenders that are guaranteed by the Veterans Administration, enabling veterans to buy a residence with little or no down payment.

Waiver – The voluntary and intentional relinquishment of a known right, claim or privilege.

Warranty – In a broad sense, an agreement or undertaking by a seller to be responsible for present or future losses of the purchaser occasioned by deficiency or defect in the quality, condition or quantity of the thing sold. In a stricter sense, the provision or provisions in a deed, lease or other instrument conveying or transferring an estate or interest in real estate under which the seller becomes liable to the purchaser for defects in or encumbrances on the title. (See Title Covenants.)

Will – A testamentary disposition of property, usually in a form prescribed by law, that takes effect upon death.

Zoning – Laws passed by local governments regulating the size, type, structure, nature and use of land or buildings.

Additional Resources:

www.sfcu.org

www.fanniemae.com

branch locations and directory of services

24/7 Telephone Services

Telephone: (650) 723-2509
Toll Free (outside 650 area code): (888) 723-SFCU (7328)
Web: www.sfcu.org
E-mail: mortgage@sfcu.org

Branch Locations

525 University Branch
525 University Avenue
Palo Alto CA 94301

Pampas Lane Branch
694 Pampas Lane
Stanford CA 94305-7202

SU Hospital Branch
300 Pasteur Drive, Room HH0 13
Stanford CA 94305

Tresidder Memorial Union Branch
459 Lagunita Drive
Stanford CA 94305

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