Mortgage Basics

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

SYNOVUS®

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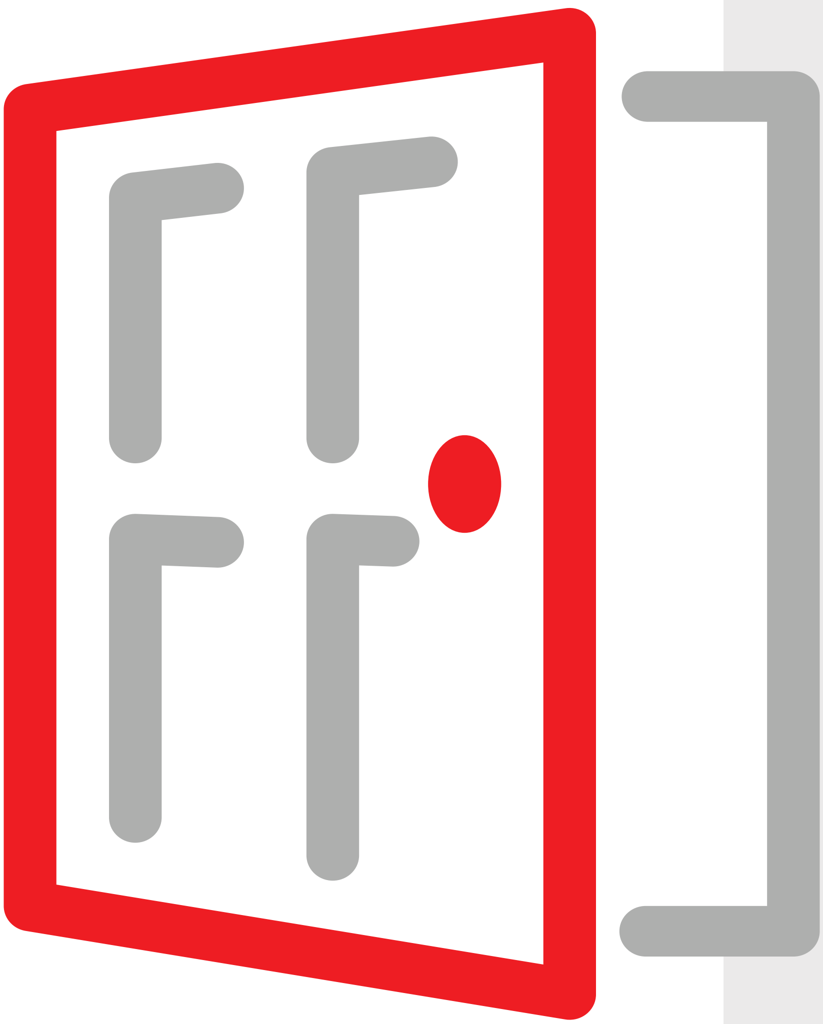

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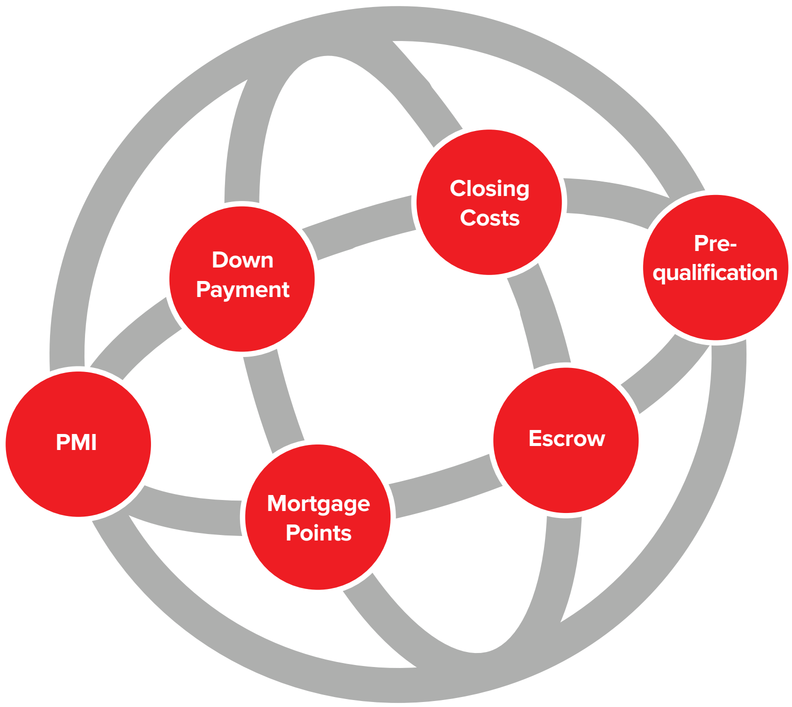
Introduction



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

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

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

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

According to the National Association of Realtors:

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

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

What is a down payment?

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

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

Is a down payment required?

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

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

There are a few exceptions[2] to the down payment requirement, such as VA loans (for veterans and active military), USDA Rural Development loans, and state or city affordable housing programs. Ask your lender about these options and whether you meet the criteria for a 0% down payment loan.

How much down payment should I pay on a house?

Many financial experts used to recommend that you put 20% down to purchase a home. Plus, buyers who pay 20% or more as a down payment avoid having to pay for Private Mortgage Insurance (PMI). However, recent data shows that the majority of home buyers put less than 20% down.[3]

Some lenders offer lower down payment options to first-time home buyers. Buyers with credit scores of at least 580 may qualify for FHA loans[4] (loans insured by the Federal Housing Administration), which only require a minimum of 3.5% down. FHA loans are not limited to first-time homebuyers, and there is no minimum income requirement to qualify. There are limits to how large the FHA loan can be, and those limits vary by state and also change from year to year. Ask your lender for more details.

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

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

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

Still don't have the money? Experts have highlighted some other creative ways[5] to gather money for a down payment, including employer-sponsored housing assistance programs, crowdsourcing a down payment in lieu of wedding gifts, and government assistance programs.

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

TIP

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

What are closing costs?

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

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

Here are some of the most common fees included in closing costs:

- **Application Fee:** This is the fee that many lenders charge to process your mortgage application. It may include a fee for the lender to obtain your credit report.
- **Title Insurance:** This insurance protects the homeowner and the lender in case someone challenges your ownership of the home.
- **Notary Fee:** This covers the cost of a notary witnessing and certifying the signatures on all the closing documents.
- **Wire Fees:** Any bank wire transfers (such as wiring the down payment to the lender) may incur a fee.
- **Courier or Delivery Fee:** This covers the cost of transporting your documents via a courier service so that the mortgage loan can be processed in a timely manner.
- **Attorney Fee:** In some states, an attorney must review all the closing documents before the real estate transaction can be completed.
- **Mortgage Points (also known as Discount Points):** This is an optional fee that some buyers pay to the lender in exchange for a reduced interest rate on the loan (one point costs 1% of the loan amount). To learn more about mortgage points, see page 14.

- **Recording Fee:** This fee is paid to your city or county recording clerk's office for documenting the new owner of the property.
- **State, County, or City Transfer Taxes:** In some locales, a tax is collected when property changes ownership. The amount is set by the state or local government.
- **Hazard Report:** Some states require that you obtain a disclosure or report from a third party to determine if the property falls in a hazard zone, such as a flood zone, earthquake area, or wildfire risk zone.
- **Home Inspection or Appraisal:** If the buyer doesn't pay for these items at the time the service takes place, they may be rolled into the closing costs.

Closing costs will vary by location due to different state laws and required fees. To estimate your closing costs, try this handy calculator from Nerd Wallet.[8]

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

In addition to one-time closing fees, you may have to prepay some other costs at closing, such as your homeowner's insurance, county property tax, or fire/flood insurance. These fees may be placed in an escrow account. To learn more about escrow accounts, see the next section on page 8.

TIP

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

What is an escrow account?

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

1. What is an escrow account?

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

2. How does an escrow account work?

An escrow account works in tandem with your mortgage payment. Your monthly payment to escrow is added to your monthly principal and interest payment so that you only have to make one payment each month to your mortgage company. When those payments come due, the mortgage company pays them on your behalf out of your escrow account.

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

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

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

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

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

4. Why do I need an escrow account?

Most lenders will require you to have an escrow account as part of the terms of your loan. It protects you by having you pay small amounts each month toward these larger annual bills. That way you won't have to scramble to pay a large bill once each year — and you can rest assured that the payments are made on time by your mortgage company. If your lender doesn't require you to have an escrow account, you will have to pay your property tax and homeowner's insurance in full when they come due each year. These payments often amount to thousands of dollars, which can be a financial burden to homeowners. If you don't pay them on time, you'll face consequences in the form of penalties, fines, or loss of insurance coverage. In extreme cases, unpaid taxes can lead to a lien on your home.[9]

5. How much money is in an escrow account?

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

DID YOU KNOW?

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

What is PMI?

Private Mortgage Insurance (PMI) is a type of loan insurance that some lenders require buyers to have that protects the lender if the buyer defaults on the loan. PMI is typically required if you have a conventional mortgage loan and your down payment is less than 20% of the home's purchase price.[10]

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

How much is PMI?

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

In general, PMI fees range from
0.3%–1.5%
of the original loan value per year.[11]

So, for example, if you buy a $200,000 house and can't afford to put 20% down, you might pay between $600 and $3,000 per year in PMI (or between $50 and $250 per month). Once you have at least 20% equity in your home[12] — that is, the outstanding loan balance is no more than 80% of the home's current value — you can request that your lender cancel the PMI requirement.

How to pay for PMI

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

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

How to avoid paying for PMI

You can avoid paying for PMI by making a down payment of at least 20% of the home's purchase price. If that's not possible, there are other ways to avoid PMI. For example, some buyers opt for a "piggyback" loan.[13] In this situation, the buyer takes out a second mortgage or home equity loan at the same time as the first mortgage. The first mortgage covers 80% of the purchase price of the home, the "piggyback" loan covers 10%, and the buyer pays the remaining 10% as a down payment (this is also known as an 80-10-10 loan). You can also do a piggyback loan with a larger down payment, so that the first loan covers 80%, the second loan covers 5%, and you pay the remaining 15% down (80-5-15 loan). Talk with your lender about these options. Or, if you don't have a lender, feel free to contact a Synovus Mortgage specialist near you.

TIP

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

What are mortgage points?

Mortgage points are fees that you pay to the lender at closing. Points are paid in addition to your down payment and closing costs. There are two types of mortgage points[14] — origination points and discount points.

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

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

In most cases,
1 discount point = .25%
reduction in interest.[15]

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

Are mortgage discount points worth the cost?

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

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

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

How mortgage discount points work

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

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

To calculate the break-even point:

the amount you paid for the discount points

÷

the amount of money you save per month

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

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

How do I get prequalified for a mortgage?

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

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

1. A solid credit score

Your credit score is a three-digit number that reflects how well you've paid off debts in the past. It takes into account the types of credit you have, how long your credit history is, how much debt you have, and whether you've made payments on time. Scores range from 300 to 850, with 850 being a perfect credit score. The minimum credit score required for a mortgage loan varies from lender to lender. An exception is an FHA mortgage, which is insured by the federal government and can be approved for buyers with credit scores of 500 or above.[17] To improve your credit score (and your chances of getting approved for a mortgage), make sure you pay all your bills on time and pay down any credit card balances.

FYI

A good benchmark is a credit score of 660 or above.[16]

2. Steady income

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

3. Cash for a down payment

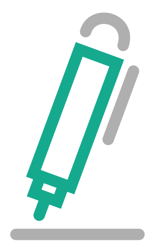
The down payment offers the lender some assurance that you are committed to paying for the house over time. It also provides an incentive for you to keep making monthly payments so that you don't lose your investment. While it's possible to get a mortgage with a small down payment, remember that the more money you put down upfront, the lower each monthly payment will be.

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

4. Documentation

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

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



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

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

5. Good debt-to-income ratios

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

6. Know how much house you can afford

One last key to getting that mortgage prequalification is understanding how much house you can afford. This takes into account not only the purchase price of the home, but also how much cash you plan to pay as a down payment, what you qualify for, and what your income and monthly expenses are.

TIP Many financial experts recommend that your monthly house payment is no more than 30% of your monthly income.

Conclusion

Ready to start house shopping?

Understanding the basics of mortgage terminology and the application process — along with having a clear idea of your savings, debts, and available cash for a down payment — puts you ahead of the game when it's time to start your home-buying journey. You can get ahead even further by gathering all your paperwork (proof of income and debts), checking your credit report, and estimating how much you can afford for a monthly mortgage payment. Finally, you can contact a mortgage lender (like Synovus) to get a prequalification letter, which will give you bargaining power during the househunting process, especially in competitive real estate markets.

At Synovus, we're here to answer your questions and walk you through every detail. We can help you find the right mortgage loan to meet your unique needs. Reach out to one of our mortgage specialists to learn more.

And after the ink dries on the closing documents, Synovus will still be here to guide you on the next steps of your financial journey, whether it's fixing up your home, financial planning, funding your dream vacation, saving for retirement, or launching a new business.

Buying a home isn't just about the financial transaction. It's about building a relationship with your lender and laying the foundation for a strong financial future.

Ready to get started?

Find a Synovus mortgage specialist near you.

About

Synovus Financial Corp. is a financial services company based in Columbus, Ga., with more than $32 billion in assets. Through our wholly-owned subsidiary, Synovus Bank, we provide commercial and retail banking services, including private banking, treasury management, wealth management, premium finance, and international banking. Synovus also provides mortgages, financial planning, and investment advisory services through our additional wholly-owned subsidiaries — Synovus Mortgage, Synovus Trust, and Synovus Securities.

For more than 130 years, we've stayed true to the concept of banking is a service to our communities and to the people who live here. Our local knowledge combined with the expertise and resources of a large financial services company allow us to help our customers with their banking, lending, and investing needs.

$32 billion in assets

Hundreds of branches in 5 states

$26 billion in deposits

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