Your Step-by-Step Mortgage Guide

From Application to Closing

Freddie Mac
We make home possible®

HomeStar Bank
& Financial Services

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Table of Contents

In this Guide, you will learn about one of the most important steps in the homebuying process — obtaining a mortgage. The materials in this Guide will take you from application to closing and they'll even address the first months of homeownership to show you the kinds of things you need to do to keep your home. Knowing what to expect will give you the confidence you need to make the best decisions about your home purchase.

1. Overview of the Mortgage Process

Taking the Right Steps to Buy Your New Home

Buying a home is an exciting experience, but it can be one of the most challenging if you don't understand the mortgage process. Many families feel overwhelmed because of the amount of paperwork they must complete. Knowing what to expect, especially if you're a first-time homebuyer, will help you make solid decisions about your home purchase.

This guide was written to help you navigate through the mortgage process—from the people involved, to the costs and forms you'll be asked to complete—and how you can take steps to make sure you keep your home long term. Understanding the primary purpose and function of the documents in the mortgage process, as well as the role of the many professionals involved, will make the mortgage process much less intimidating.

Getting Started

As you begin the journey toward homeownership, there are many resources available to you, including community organizations, your local government housing agencies, real estate professionals and loan officers who understand and are willing to work with prospective homebuyers like you. You will face many decisions throughout the process. We strongly encourage you to seek out these resources' professional services to gather the facts so you can make the best decisions.

While it is tempting to look for your perfect home right away, there are some steps to follow before you start shopping for a home. Begin by determining how much you can afford, based on your spending plan and comfort level. One of your first steps should be to talk to a homeownership education counselor. Call 800-569-4287 or visit http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm for a list of housing counseling agencies approved by the U.S. Department of Housing and Urban Development (HUD) that can help you learn the homebuying basics and evaluate your financial readiness. Or you can contact a Freddie Mac Borrower Help Center or Network which are trusted non-profit intermediaries with HUD-certified counselors on staff that offer prepurchase homebuyer education as well as financial literacy using tools such as the Freddie Mac CreditSmart® curriculum to help achieve successful and sustainable homeownership. Visit http://myhome.freddiemac.com/resources/borrowerhelpcenters.html for a directory and more information on their services. Next, talk to a loan officer to review your income and expenses, which can be used to determine the type and amount of mortgage loan you qualify for. Having a good credit history is also an important beginning step. If you have not yet established a credit history or need information on how to establish or improve your credit history, seek assistance from a homeownership education counselor.

Housing Counseling Resources

Take advantage of the valuable housing counseling resources offered by community-based organizations, including:

- Housing counseling
- Developing a spending plan
- Long-term management of your money
- Review of different debt repayment options

For a list of housing counseling agencies approved by the U.S. Department of Housing and Urban Development, call 800-569-4287 or visit www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

For a directory of Freddie Mac Borrower Help Centers and the national Network, visit http://myhome.freddiemac.com/resources/borrowerhelpcenters.html.

Educate Yourself About Protecting Your Finances

As you gather your information from experts, it's more important than ever to ensure that you are receiving reliable information that will enable you to make the right choices throughout the mortgage process. Follow these helpful tips so that you can protect yourself against organizations that may not have your best interests in mind:

- **Say NO to "easy money."** Beware if someone claims that your "credit problems won't affect the interest rate." If an offer is really appealing, get it in writing and then seek a second opinion.
- **Shop around.** Always talk to several lenders to find the best mortgage loan you qualify for. A mortgage loan product or lending practice may seem reasonable until compared with a similar mortgage loan product offered by other lenders.
- **Find out about prepayment penalties.** Know if the mortgage loan offered to you includes a fee if you pay off your loan early. If it is a requirement of the mortgage loan, you may want to ask about other products that do not contain a penalty.
- **Make sure documents are correct.** Beware of anyone offering to falsify your income information to qualify you for a mortgage loan. Never falsify information or sign documents that you know to be false.
- **Make sure documents are complete.** Do not sign documents that have incorrect dates or blank fields. Be wary of promises that a professional will "fix it later" or "fill it in later" after you've signed.
- **Ask about additional fees.** Make sure you understand all of the fees that are part of your mortgage process. Question any items you didn't request or know about prior to the time you are asked to sign the mortgage loan documents.
- **Understand the total package.** Ask for written estimates that include all points and fees. Compare the annual percentage rate (APR), which combines a loan's interest rate with certain other fees charged by the lender at closing and over the life of the loan.
- **Work with legitimate credit counselors.** Beware of scam credit counseling and credit consolidation agencies. Get all the facts before deciding to combine credit card or other debts into a mortgage loan.
- **If you're not sure, don't sign!** Get advice first from a reputable consumer credit counseling agency or housing counselor.

Entering the Homebuying Process

Once you enter the process, you'll be faced with a variety of forms and an assortment of paperwork. The materials in this Guide focus on what you need to know about both the process and the forms. They will give you an overview of the path to purchasing a home and they'll describe and explain the most common mortgage forms you're likely to be asked to complete. While the sections that follow will answer many of your questions, the professionals working with you should advise you and address your concerns along the way.

Each section in this Guide explains the major steps in the homebuying process. The information will take you from application to closing and it will even address the first months of homeownership to show you the kinds of things you need to do to ensure that you keep your home long term. You'll also look at the role of the different people involved in the homebuying process: the loan officer, the real estate professional, the closing agent and the home inspector, among others, to better understand why they're involved and what they do. The information in this Guide, coupled with the support from a trusted housing professional, will help ensure that you are better equipped for homeownership in the future.

2. Understanding the People and Their Services

Who's Who and What's What

The process of obtaining a mortgage can seem quite complicated because of the number of people involved. Although it can appear overwhelming at times, it is important to recognize that each person you work with provides a specific service that will help you become a homeowner.

This section will acquaint you with the many people you'll work with as you buy your home. Some of the first people you'll meet include your loan officer and real estate professional. Your loan officer will help you determine how much you can afford to spend on a mortgage loan so that you choose the mortgage option that best suits your financial situation and a real estate professional will help you find the right home for you and your family. As you move further along in the mortgage process, you'll meet additional professionals, including a real estate appraiser, home inspector and closing representative. Here is a brief summary of the key members of your homebuying team and what they do for you:

- **Loan Officer**—Loan officers are mortgage specialists; they will use your credit, financial and employment information to see if you qualify for a mortgage and then come up with mortgage financing options that match your financial capacity. There are a variety of different mortgage options available. Fixed-rate mortgages provide a stable option since your interest rate remains the same for the length of your loan. The most common fixed-rate mortgage is a 30-year fixed-rate, although 15- and 20-year fixed-rate mortgages also provide certain advantages.

  Your loan officer will also help you complete your mortgage loan application and keep track of what's happening during the loan approval process. Please be sure to read Section 3, *What You Should Know About Your Mortgage Loan Application*.

- **Real Estate Professional** — Real estate professionals (REPs) can help you find the kind of home you seek, examine comparable homes and compare different neighborhoods. They often provide specific community information on shopping, schools, property tax rates and more. Most important, REPs can look for homes that meet your needs and financial circumstances, helping you narrow your choices. And when you're ready to make an offer on a home, the real estate professional will usually handle the negotiations with the seller, including presenting your offer (what you're willing and able to pay for the property).

  To find a real estate agent professional, you should ask your family and friends for referrals. You can also find an agent a REP who makes you feel comfortable and can provide the knowledge and services you need. The real estate agent professional is almost always paid by the seller upon the sale of the home.

- **Loan Processor**—The loan processor's job is to prepare your mortgage loan information and application for presentation to the underwriter. The loan processor will ask you for many documents, including documents about your income, your employment, your monthly bills and how much you have in the bank. In addition, the loan processor must make sure that all proper documentation is included, that all numbers are calculated correctly and double checked and that everything is stacked in the proper order. A well-processed loan file can decrease the amount of time it takes for a decision about your mortgage loan application.

- **Mortgage Underwriter**—The mortgage underwriter is the professional authorized to assess if you are eligible for the mortgage loan you are applying for. The mortgage underwriter will approve or reject your mortgage loan application based on your credit history, employment history, assets, debts and other factors.

- **Real Estate Appraiser**—The real estate appraiser's job is to look at the property you are purchasing and determine how much it's worth (or its *fair market value*). Real estate appraisers determine a home's value in a number of ways, including comparing the

value of similar homes that recently sold nearby. A real estate appraiser is specially qualified through education, training and experience to estimate the value of property.

- **Home Inspector**—Hiring a professional home inspector can be one of the most important things you can do to make sure your home is in good condition. An authorized inspector can uncover defects with the house that could cost you a lot of money down the road. For example, if the home inspector finds a serious problem, like a roof that needs to be replaced, you'll know upfront and can negotiate with the seller for the cost of the roof repair or replacement. If you don't find out that sort of thing until after you own the house, the problems (and costs) are yours alone. Your real estate professional can be a good reference for a home inspector.

- **Closing Representative**—Closing, which is also called "settlement," is the final step in buying your home. A representative of the closing company oversees and coordinates the closing, records the closing documents and disperses money to the appropriate individuals and organizations. Closing meetings are a standard part of the homebuying process.

  At closing, you'll sign many documents like the mortgage note and mortgage or deed of trust. Proof of insurance and inspections, as well as any money due, are required before you get the keys to your new home. Once the closing meeting is complete, you can move into your new home.

Other Housing Professionals

Along with the housing professionals previously listed, there are other important people and organizations that you'll work with as part of the homeownership process. These include:

- **Community-Based Organizations and Local Housing Counseling Agencies**—These are important organizations to consider contacting when you begin the homebuying process. Professionals in these organizations will help you assess your individual financial situation and help you improve your credit to ensure that you are well prepared for homeownership. They may also be able to identify local government sponsored down payment and closing cost assistance funding that you may be eligible to receive. Freddie Mac Borrower Help Centers and its national Network are also trusted nonprofit intermediaries with HUD-certified counselors on staff that offer prepurchase homebuyer education as well as financial literacy using tools such as the Freddie Mac CreditSmart® curriculum to help achieve successful and sustainable homeownership. Visit http://myhome.freddiemac.com/resources/borrower-helpcenters.html for a directory and more information on their services.

- **Mortgage Lender and Servicer**—The mortgage lender is the financial institution that provides funds for your mortgage. A mortgage servicer is the financial institution or entity that is responsible for collecting your ongoing mortgage payments. If you have difficulty paying your mortgage on time after you become a homeowner, be sure to contact your mortgage servicer who can provide you with a variety of options to help you stay in or sell your home. Your mortgage servicer may be the same as your lender, or may be a different company depending on who your lender is or how they manage your mortgage going forward. It is not uncommon for your lender to transfer the servicing of your mortgage to a different company after you close on your home.

All of these people play different but complementary roles. Knowing the roles of each type of professional will make the mortgage process flow as smoothly as possible.

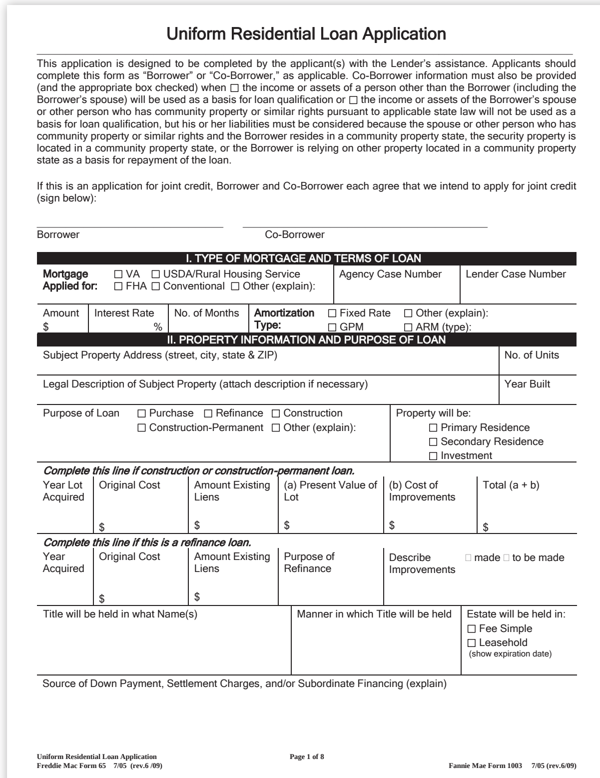
3. What You Should Know About Your Mortgage Loan Application

Now that you've read about the key professionals in the homebuying process, it's time to start taking a closer look at the forms and assorted paperwork necessary to purchase a home. There are a number of important steps involved in making the dream of homeownership a reality and one of them is completing your mortgage loan application (the official title for this form is the *Uniform Residential Loan Application*).

This mortgage loan application includes several sections that capture information about you, your finances and details of your potential mortgage. It's lengthy and at first glance seems complicated, so in this section you'll learn about the reasons for each part of the form and why you're being asked to provide the requested information. Your loan officer will help you fill out this form.

Be sure to work with your loan officer to complete the application accurately and completely and take your time when answering the questions on the application. If you put false or inaccurate information on your mortgage application, it can seriously harm your chances of being approved and is illegal. **All of the personal information on your application is confidential and protected by federal law.**

A Section-by-Section Guide to Your Mortgage Loan Application



Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower," as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when ☐ the income or assets of a person other than the Borrower (including the Borrower's spouse) will be used as a basis for loan qualification or ☐ the income or assets of the Borrower's spouse or other person who has community property or similar rights pursuant to applicable state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person who has community property or similar rights and the Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

Borrower Co-Borrower

I. TYPE OF MORTGAGE AND TERMS OF LOAN

Mortgage Applied for:	☐ VA ☐ USDA/Rural Housing Service ☐ FHA ☐ Conventional ☐ Other (explain):	Agency Case Number	Lender Case Number
Amount $	Interest Rate %	No. of Months	**Amortization Type:** ☐ Fixed Rate ☐ GPM ☐ Other (explain): ☐ ARM (type):

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address (street, city, state & ZIP)	No. of Units
Legal Description of Subject Property (attach description if necessary)	Year Built
Purpose of Loan ☐ Purchase ☐ Refinance ☐ Construction ☐ Construction-Permanent ☐ Other (explain):	Property will be: ☐ Primary Residence ☐ Secondary Residence ☐ Investment

Complete this line if construction or construction-permanent loan.

Year Lot Acquired	Original Cost	Amount Existing Liens	(a) Present Value of Lot	(b) Cost of Improvements	Total (a + b)
	$	$	$	$	$

Complete this line if this is a refinance loan.

Year Acquired	Original Cost	Amount Existing Liens	Purpose of Refinance	Describe Improvements ☐ made ☐ to be made
	$	$		

Title will be held in what Name(s)	Manner in which Title will be held	Estate will be held in: ☐ Fee Simple ☐ Leasehold (show expiration date)

Source of Down Payment, Settlement Charges, and/or Subordinate Financing (explain)

Uniform Residential Loan Application
Freddie Mac Form 65 7/05 (rev.6 /09) Page 1 of 8 Fannie Mae Form 1003 7/05 (rev.6/09)

There are 10 sections in the mortgage loan application that are described in detail in this chapter. Your loan officer will assist you with many sections of this document, especially as they relate to the type of mortgage and terms of the mortgage loan.

Section I: Type of Mortgage and Terms of Loan

The information in this section should match the type of mortgage and mortgage loan terms that you discussed with your loan officer. For purchases where you haven't selected a property yet, you can specify the maximum amount you wish to borrow.

Section II: Property Information and Purpose of Loan

If you've already selected a house, in this section you will need to provide information about the property, including the address, the year it was built, whether you want to purchase or refinance—as well as other details about the purpose of the mortgage loan you seek.

Section III: Borrower Information

This is personal information required of you and any co-borrower involved (any additional borrower who accepts responsibility for paying the mortgage, such as your husband or wife), including Social Security number, date of birth, marital status and contact information (street address and telephone numbers). If you have lived at your current address less than two years, be prepared to furnish former addresses for up to seven years.

With this identifying information, your lender will be able to obtain your credit report, which is a key factor in helping your loan officer assess your current financial situation.

Section IV: Employment Information/ Section V: Monthly Income and Combined Housing Expense Information

In these sections, you need to provide a history of your employment (where you have worked and for how long), your monthly income and your monthly expenses (bills you pay every month)—along with recent paycheck stubs and federal W-2 income tax forms for the last two years. With this information, your loan officer can determine your ability to make regular payments on the mortgage and your capacity to afford the costs associated with owning a home.

If you have not worked at your current job for at least two years, or if you have multiple jobs, you will need to provide information on all jobs going back until you have a two-year history. Your loan officer will have you sign a Verification of Employment (VOE) form, which will be sent to your employer to verify your employment and earnings. A VOE form will also be sent to previous employers if you have been on the job less than two years.

Use your gross income for the Monthly Income column in Section V. Your gross income is how much money you make before taxes or deductions. This includes most sources of income, although you aren't required to disclose alimony, child support or separate maintenance payments if you do not choose to have them considered for paying your mortgage. The information you provide will later be verified by a credit report ordered by your lender. Differences between your figures and those on the credit report will raise questions and may delay the decision on your mortgage loan, so it is important that you are as accurate as possible when filling out this section.

Section VI: Assets and Liabilities

This section indicates your current financial position—how much you own (assets) versus how much you owe (liabilities). The difference between the two is your net worth.

If you have bank accounts, savings, retirement funds, investments, cars or trucks—even cash that you keep at home—they can be considered assets that support your application. You will need to provide copies of all of your account statements for at least two months. For the Liabilities section, you will be asked to itemize all of your current bills, loans and other debts, including current balances and monthly payments. Debts include automobile loans, credit cards, finance company loans, bank and credit union loans and existing mortgages, including home equity loans.

The assets and liabilities information you provide to your loan officer on the loan application will later be verified by a credit report ordered by the lender. If you have not yet established a credit record by obtaining a credit card or an auto loan, for example, your loan officer may look to see if you've paid your rent and utilities on time so they can evaluate your payment patterns.

Important Documents to Complete Your Application

You will most likely need the following information to provide to your loan officer in order to complete Sections IV–VI of the mortgage loan application:

- Paycheck stubs for the past 30 days.
- W-2 forms for the past two years.
- Information about long-term debts, like car loans, student loans, etc.
- Recent statements from all of your bank accounts.
- Tax returns for the past two years if you're self-employed.
- Proof of any supplemental income.

Section VII: Details of the Transaction

This section gives the all-important details of the mortgage loan—presented as estimates—including the purchase price of your home, closing costs and the total cost of your mortgage loan (including principal, interest and fees), among other information. Your loan officer will complete this area of the application. Make sure that it agrees with your understanding of the transaction and look closely at the estimated closing costs.

Section VIII: Declarations

In this section, you will be asked to answer questions about any pending legal problems or other factors (past or present) that may influence your financial situation. For example, have you ever declared bankruptcy? This information, in combination with your credit report, will help your lender assess your ability to pay the mortgage. In addition, you will be asked to affirm if you are a U.S. citizen or a permanent resident alien. If you are not a U.S. citizen but can provide documentation to establish a legal presence in the U.S., you can still obtain a mortgage.

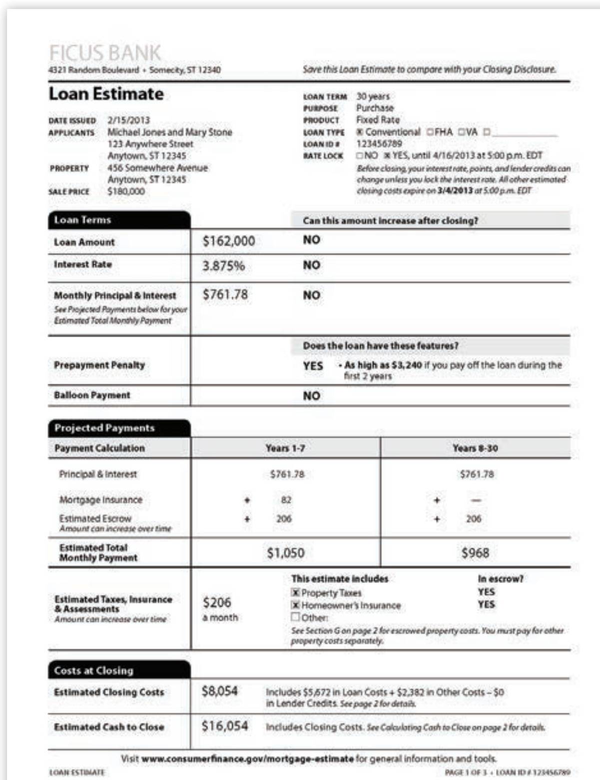
Section IX: Acknowledgment and Agreement

Your signature is your word of honor. In this section, you sign your name, saying that the information you are providing is accurate and true to the best of your knowledge.

Section X: Information for Government Monitoring Purposes

In this section of the application, you will need to provide such information as your ethnic origin and your race. That's because the U.S. government wants to be sure our housing finance system meets the needs of every racial and ethnic group in the country. This is one way they gather the statistics they need to ensure the system works fairly for everyone.

Pre-Approval and It's On to the Next Step



FICUS BANK
4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone
123 Anywhere Street
Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
Anytown, ST 12345
SALE PRICE $180,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐ ________
LOAN ID # 123456789
RATE LOCK ☐ NO ☒ YES, until 4/16/2013 at 5:00 p.m. EDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on ***3/4/2013*** *at 5:00 p.m. EDT*

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

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	$761.78	$761.78
Mortgage Insurance	+ 82	+ —
Estimated Escrow *Amount can increase over time*	+ 206	+ 206
Estimated Total Monthly Payment	$1,050	$968
Estimated Taxes, Insurance & Assessments *Amount can increase over time*	$206 a month	This estimate includes: ☒ Property Taxes (In escrow? YES); ☒ Homeowner's Insurance (YES); ☐ Other: *See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.*

Costs at Closing		
Estimated Closing Costs	$8,054	Includes $5,672 in Loan Costs + $2,382 in Other Costs – $0 in Lender Credits. *See page 2 for details.*
Estimated Cash to Close	$16,054	Includes Closing Costs. *See Calculating Cash to Close on page 2 for details.*

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

LOAN ESTIMATE PAGE 1 OF 3 • LOAN ID # 123456789

Once the application is complete, your loan officer will review it with you and ask you and any co-borrowers to sign it. Your loan officer will then send it through their organization to obtain approvals. If it's approved, you will receive a pre-approval letter, which is the lender's conditional commitment to lend you a specific amount of money for the purchase of your home.

With that pre-approval, you will know just how much house you can afford to buy. While this is helpful information, you need to decide for yourself if you can live comfortably with the amount of your suggested mortgage and the associated monthly mortgage payment.

4. Understanding Your Costs Through Estimates, Disclosures and More

Once you have completed the mortgage loan application process, your loan officer will provide you with a variety of documents outlining the costs associated with your loan. The most important are the Loan Estimate and the Closing Disclosure. These forms are required by law and are there for your protection.

The Loan Estimate

Within three business days of submitting the application, your loan officer must provide you with a Loan Estimate. The Loan Estimate provides you with an estimate of your mortgage loan terms and settlement charges (also called closing charges, or costs to complete your mortgage transaction) if you are approved for a mortgage loan. With this information, you can evaluate your mortgage loan offer, an even explore a few other possibilities before accepting it.

The Loan Estimate is a three-page form with summary information of your loan terms, monthly payment and money needed at closing on the first page, details of your closing costs on the second page and additional information about your loan on the third page.

You can use your Loan Estimate to compare rates and settlement charges from other lenders. As the legal mortgage terminology used in the Loan Estimate may seem confusing, the following definitions should help you understand some of the most important information on this form.

- **Loan Terms**—This section defines the basic terms of your mortgage loan, including the initial loan amount, interest rate and initial monthly payment. This section also includes important information indicating if your interest rate can rise and if your loan has a prepayment penalty.
- **Escrow Account Information**—Most lenders require you to pay in advance for some items that will be due after closing. These prepaid items generally include homeowner's insurance premiums and property taxes. The first page of the Loan Estimate indicates whether or not an escrow account is required and estimates the amount of your monthly escrow payment.
- **Closing Cost Details**—Your closing costs include Loan Costs and Other Costs. Loan costs are divided into three categories:
  - Origination charges are fees charged by your lender for preparing and submitting your completed loan application and underwriting your loan. The Origination Charges can include an application fee, an underwriting fee and an origination charge or points. One point equals one percent (1%) of your mortgage amount.
  - Services You Cannot Shop For lists the fees for those settlement services for which the lender will select the person or entity that will provide those services. These services typically include appraisals and credit reports for example.
  - Services You Can Shop For lists the fees for those settlement services that you may shop for and choose the service provider. These services may include the company that issues title insurance, conducts a survey, or performs a pest inspection.

  Other Costs include: (1) Taxes and government fees such as recording fees and taxes and transfer taxes; (2) Prepaid such as homeowner's insurance premiums for the first year of your loan term, prepaid interest and property taxes; and (3) Initial escrow payments at closing, which generally include two (2) months of homeowner's insurance premiums and property taxes.

Some common fees you may be charged include the following:

- **Appraisal Fee**—the fee paid to the professional appraiser who will assess the value of the home you want to buy. Since the home is the security or guarantee for the amount you are financing with your mortgage loan, your lender needs to know that the value of the property covers the loan amount. Most lenders will not provide you with a mortgage loan amount greater than what the appraiser determines is the property's fair market value.
  - **Credit Report Fee**—the cost of getting copies of your credit report to assess your mortgage loan application. Your credit score, included in your credit report, is one of the most important factors in determining the interest rate that will be offered to you.

What Does Your Credit Report Include?

Your credit report provides information on money you've borrowed from credit institutions, in addition to your payment history, and includes:

- **A list of debts and a history of how you've paid them.**
  This can include credit cards, auto loans, student loans, department store credit cards, etc.
- **Any bills referred to a collection agency.**
  This can include phone and medical bills.
- **Public record information.**
  This can include tax liens and bankruptcies.
- **Inquiries made about your creditworthiness.**
  An inquiry is made when you apply for credit. Your credit report can also show if you were given credit based upon the inquiry.

- **Title services fee and title insurance**—the fee paid to a title company to search county records to make sure that the title to the property you wish to buy is clear and free of any complications like pending debts or liens on the property.
  - **Government recording charges**—the fee required to register the property under your name and record the mortgage or deed of trust.
  - **Homeowners insurance**—This charge is for the insurance you must buy for the property to protect your property from a loss, such as fire, floods and storm damage. In many cases, homeowners choose to let the lender pay the insurance from an escrow account the lender sets up for you that you fund on a monthly basis.
  - **Initial deposit for your escrow account**—This represents the money that you are required to pay in advance to establish your escrow account, so that this account can be used by the lender to pay for homeowners insurance, property taxes and other charges, if applicable.

Read the Loan Estimate very carefully and go over the list of fees with your loan officer to make sure that you have a clear understanding of what are you paying and why.

Please keep in mind that the Loan Estimate is only an estimate, and the actual charges you must pay at closing may differ. At your closing, you will receive a Closing Disclosure form that lists your actual loan costs. Compare the charges on the Closing Disclosure with the charges on the Loan Estimate to ensure that they have not dramatically changed. If they have changed, be sure to get a clear explanation of why. There are limits on the amount by which certain charges listed on the Loan Estimate can increase.

The Loan Estimate also includes certain disclosures that will enable you to see the total cost of your mortgage under the terms of your particular mortgage loan. This disclosure is required by law to inform you of the complete cost of your credit and allows you the opportunity to ask questions and understand how much you will pay for the mortgage loan you will get.

These disclosures reflect the most significant characteristics of your mortgage loan: (1) the annual percentage rate (APR); (2) the payment amount; and (3) the total interest percentage (TIP).

- The APR is not the interest rate for which you applied. This percentage rate takes into account the various loan charges, including loan discounts, origination fees, prepaid interest and other credit costs. The APR is important because it gives the true cost of borrowing since all of the finance charges associated with the mortgage loan are considered.
- The proposed payment amount shows the dollar amount of your payments and their frequency.
- The TIP is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

The Commitment Letter

After your lender has approved your mortgage loan application, you should receive a commitment letter that specifies the amount of the mortgage loan, the number of years to repay the mortgage loan (the term), the interest rate, the APR and the monthly charges. You usually must accept the commitment by returning a signed copy to the lender within five to 10 days and you might have to pay part or all of the origination fees at this time. Once the commitment letter has been received, you are assured the financing needed to complete the purchase of your home and can now focus on completing the details required for closing.

The Appraisal Disclosure

This document will inform you that you have the right to get a copy of the appraisal report that was obtained in conjunction with your application for credit.

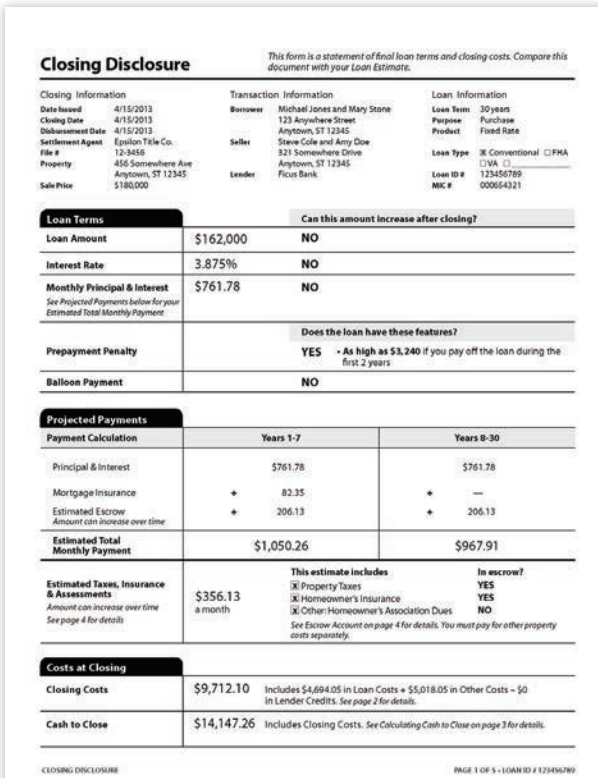
Other Disclosures

There are a number of other disclosures that will be given to you, including a disclosure about your credit report and your right to get a copy. You will also be required to sign a disclosure stating that you intend to actually occupy the property as your primary residence (live in the property the majority of the time), as opposed to using the property as a second home or as an investment.

The Final Document Before Closing: The Closing Disclosure

Your loan officer should provide you with a copy of the Closing Disclosure at least 3 business days before you sign the mortgage loan documents at your closing. This document discloses the actual dollar amounts you will pay for the various fees and services associated with the closing of your mortgage loan. Your closing costs can typically range from 3 percent to 7 percent of the mortgage loan amount, so it's important that you are aware of these costs and ask questions about them.

The Closing Disclosure contains the final terms of your loan, as well as the final loan charges that you will pay at closing. In addition to the disclosures contained in the Loan Estimate, the Closing Disclosure provides information regarding certain features of your loan, the amount financed, the finance charge and the total of payments.



Closing Disclosure

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

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

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

Projected Payments Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	$761.78	$761.78
Mortgage Insurance	+ 82.35	+ —
Estimated Escrow *Amount can increase over time*	+ 206.13	+ 206.13
Estimated Total Monthly Payment	$1,050.26	$967.91

		This estimate includes	In escrow?
Estimated Taxes, Insurance & Assessments *Amount can increase over time* *See page 4 for details*	$356.13 a month	☒ Property Taxes	YES
		☒ Homeowner's Insurance	YES
		☒ Other: Homeowner's Association Dues	NO
		See Escrow Account on page 4 for details. You must pay for other property costs separately.	

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

CLOSING DISCLOSURE PAGE 1 OF 5 • LOAN ID # 123456789

The amount financed is the loan amount available after paying your upfront finance charge. The finance charge is the dollar amount the loan will cost you and the total of payments is the total amount you will have paid after you make all payments of principal, interest, mortgage insurance and loan costs, as scheduled.

The Closing Disclosure also lists the date of the closing. In many places, the closing takes place at a title company or an escrow office. The escrow officer is an impartial third party in the transaction, who will be able to answer general questions about the terms of your mortgage loan, but won't be able to give you legal advice.

5. What You Should Know About Your Closing

The Final Step to Homeownership

You and your family are finally ready to move to your new home. Your mortgage loan was approved, your house passed inspection, your belongings are packed and everyone is looking forward to moving day. All that's left is to attend your closing.

What is a closing? A closing is a meeting that involves all of the parties signing the final documents and legally transferring the property to you. There are costs and fees in this final step of which you need to be aware. This section will walk you through the entire process.

When you are finished signing the closing documents, you will be given the keys to your new home. The mortgage process is now complete and you are officially a homeowner.

Who Will Be There?

Usually, the closing takes place at a title company or an escrow office. The following individuals should be there or be represented:

- You and any co-borrower (such as your spouse), if they're involved with the transaction
- Escrow officer
- Closing agent
- The seller's real estate professional
- Your real estate professional

The thing you'll probably remember most years later is how many times you had to sign your name. There are lots of documents that need your signature. Here's an overview of what will happen:

- You will sign a promissory note indicating that you have accepted the mortgage loan from your lender and agree to repay the amount borrowed, plus interest. You also will sign a security instrument which pledges your home as collateral for the loan. In some states this document is a mortgage and in other states it is a deed of trust.
- At closing, your lender will transfer the money to the seller on your behalf. The seller will then sign a document called the deed, transferring ownership of the property to you.
- The title company or settlement agent will prepare all the documents and make sure that they are properly recorded.
- Additionally, there will be a number of affidavits and declarations for you to sign. These legally binding documents spell out the financial obligation you are taking on and your rights as a homeowner.

Make sure you understand what you're signing. It is important to read the documents carefully. Don't hesitate to ask questions. Sometimes real estate professionals will go over the documents in detail before the actual closing, so you are comfortable with the process. If that seems like a good idea to you, by all means ask your real estate professional to spend time with you explaining the paperwork.

The Documents in More Detail

Here's a little more detail about some of the paperwork you'll be asked to sign at your closing. Remember, every person who buys a home has to sign this paperwork, no matter the country of origin, income level or native language.

The Mortgage Note

The mortgage note is a legal document that provides evidence of your indebtedness and your formal promise to repay the mortgage loan, according to the terms you've agreed to. These terms include the amount you owe, the interest rate of the mortgage loan, the dates when the payments are to be made, the length of time for repayment and the place where the payments are to be sent. The note also explains the consequences of failing to make your monthly mortgage payments.

The Mortgage or Deed of Trust

The mortgage or deed of trust is the security instrument that you give to the lender that protects the lender's interest in your property. When you sign the mortgage or the deed of trust (depending on the state where you live), you are giving the lender the right to take the property by foreclosure if you fail to pay your mortgage according to the terms you've agreed to. Financing a house is very similar to financing an automobile; in both cases the property is the security for the loan.

The mortgage or deed of trust states most of the information contained in the note. It also establishes your responsibility to keep the house in good repair, insure it, pay your real property taxes and make your payments on time.

The Deed

A deed is a document that transfers ownership of the property to you. It contains the names of the previous and new owners and a legal description of the property and is signed by the person transferring the property. The deed gives you title to the property, but the title is conveyed to a neutral third party (called a trustee) until you pay the mortgage loan in full.

The closing agent will be responsible for recording this document so that it can be filed as part of your county's public records. You will receive a copy at closing and another copy after it has been recorded.

Affidavits and Declarations

Affidavits and declarations are statements declaring something to be true, like the fact that the property will be your principal place of residence or that all the repairs needed on the property were completed prior to closing. In most cases you'll have to sign one or more affidavits at your closing.

A Summary of Useful Tips

The closing process can be stressful because of all the paperwork you will need to sign. Just remember these few tips:

- Avoid feeling rushed by reading all the documents that will be sent to you prior to this meeting.
- Most people ask a lot of questions about the legal terminology in closing documents. Don't be afraid to ask as many questions as you need to ensure that you clearly understand the process and the paperwork.
- The documents in the mortgage process are the same for everybody, regardless of ethnic origin, language, gender or income. Federal law requires that you sign English language versions of all forms as your final, legally binding contract.

The day you close on your new home will be one of the most rewarding experiences of your life. While homeownership does come with responsibility, you'll take pride in the fact that you have a new home for you and your family to enjoy now and in the future.

6. Owning and Keeping Your Home

Keeping Your Home and Your Finances in Order

Buying a home is a dream come true for many—but signing your mortgage documents is only the beginning of your homeownership responsibilities. Owning a home is an ongoing commitment—new issues and responsibilities can come up at any time. Just as you organized your finances in order to purchase your home, it's also wise to think through what it will take to stay comfortably in your home. That's what this section is all about.

We all know that life is unpredictable. Any number of unexpected things—a sudden illness in your family, the loss of a job, or a family emergency—could limit your ability to fulfill your financial obligations, including paying your mortgage on time. Prepare now so that if you are challenged in the future, you'll be better equipped to handle the situation.

Your agreement to pay your mortgage loan is very specific. It establishes the exact date when your mortgage loan is due each month, the amount of the payment and where it should be sent. Making late payments will result in late fees and will also negatively affect your credit score and your ability to obtain credit in the future.

Knowing these facts will give you the confidence to prepare for the unexpected by creating a plan that includes budgeting for emergencies.

Protecting Yourself by Planning Ahead

Always have a backup plan ready in case you suddenly find yourself facing financial difficulty. One rule of thumb: work toward setting aside between three and six months of living expenses to protect yourself from unexpected financial problems. If you don't already have that, start saving today.

Follow a spending plan and take into account the new expenses you have as a homeowner, like taxes, insurance, furnishings and general maintenance and repair costs. Think about areas where you can reduce your monthly spending on nonessential services. For instance, temporarily canceling your gym membership or delaying electronics purchases may significantly reduce your monthly expenses.

Take Into Account the New Expenses You Have as a Homeowner

Remember that the mortgage is not the only expense of homeownership. Other expenses include:

- Homeowners insurance, interest and taxes (which may be factored into your monthly mortgage payment)
- Maintenance costs
- Utilities
- Water and garbage services
- Unexpected repairs

Maintain Your Home

Every step you take now to care for your home will benefit you and your family in the future. It is important that you maintain the condition of your home for the safety and comfort of your family and to protect the value of your property. Once you move into your home, it is essential that you set aside part of your time and spending plan to maintain the property.

Plan ahead—if you know that your hot water heater is old and probably only has a year before it needs to be replaced, start budgeting for its replacement now. Keep track of the age of appliances, the roof, decks and other features. By knowing when things are likely to need maintenance, you can avoid unpleasant surprises that can impact your finances.

If Your Mortgage Loan Is "Sold" or the Servicing of Your Mortgage Loan is Transferred to Another Servicer

Don't be alarmed if an unfamiliar company notifies you that it has "bought" your mortgage loan or is now servicing your mortgage loan. Lenders regularly sell mortgage loans or transfer the servicing of mortgage loans to other companies. This transaction doesn't mean the terms or obligations of your mortgage loan have changed, only that you'll be sending your mortgage loan payment to another company, at another address.

If that happens, you'll be sent all the information you need from your current servicer and your new servicer so there is a smooth transition. It's wise to read carefully all correspondence related to your mortgage loan and keep company names, mailing addresses and telephone numbers in a file.

Working with Your Lender to Prevent Foreclosure

If something happens in your life that has a negative impact on your ability to pay your mortgage, **contact your mortgage servicer** (the company where you send your mortgage payments) immediately. This is important: make that call as soon as you realize you won't be able to make a payment. It's not a conversation anyone looks forward to, because it can be embarrassing and uncomfortable. But remember, you're dealing with professionals who understand just what your options are and are trained to help you make the right choices to keep you in your home if at all possible. In some cases, people have lost their homes because they did not return their mortgage company's calls or written invitations to discuss payment options.

Don't wait until you miss a mortgage payment to contact your mortgage servicer. If you don't pay your monthly mortgage payments over a period of time, the mortgage company can foreclose. This means you will lose the title to your property and may be evicted from your home. The key here is to communicate, communicate, communicate.

Community Resources

Nonprofit housing and credit counselors in your community can also provide assistance by helping you analyze your financial situation and put together a spending plan to help you pay your mortgage and other monthly expenses. These counselors can help you find and take advantage of local services or programs that provide financial, legal, medical or other support. They also play an important role in counseling borrowers who have fallen behind in their mortgage payments and may be facing foreclosure. HUD-approved housing counseling agencies are available to provide you with the information and assistance you need to avoid foreclosure. Find a list of HUD-approved foreclosure avoidance counseling agencies by visiting http://www.hud.gov/offices/hsg/sfh/hcc/fc/index.cfm.

Through its on-the-ground Borrower Help Centers and national Network, Freddie Mac works with trusted national nonprofit intermediaries to support its ongoing commitment of helping struggling borrowers with Freddie Mac-owned mortgages avoid foreclosure. Their services include helping clients understand, identify and pursue a foreclosure prevention solution with their mortgage loan servicers, whenever possible. For a directory of Freddie Mac Borrower Help Centers and the national Network, visit http://myhome.freddiemac.com/resources/borrowerhelpcenters.html.

Protecting Your Good Credit and Your Home

Your house has real monetary value and the potential to be a source for building wealth for you and your family. That's one reason why you could be the target of scam artists and unscrupulous people who want to give you loans against the equity you have in your house. Your equity is the amount your house is worth on the market, minus what you owe to your mortgage lender.

Be careful when you get these offers in the mail, by telephone or in person. If an offer sounds too good to be true, it usually is. Remember, it took you time and a disciplined attitude to build a good credit history and it's because of that good credit that you were able to obtain the approval on your mortgage loan.

When you protect your credit, you're protecting your ability to get financing with favorable terms in the future. If you are thinking about refinancing down the road, helping your kids get a college loan, opening a new line of credit or making improvements to your home, maintaining and protecting your good credit will help you get what you need.

Prevention Checklist

It is important that you take a conservative approach to long-term homeownership. Plan for things you need and want and prioritize them. Be careful with your credit and cash. You'll find that being prudent in your planning and spending in the beginning will better position you for a successful homeownership experience.

Remember the following:

- Keep all your documents in a file in case you need to take legal action to protect your property and other assets.
- Create a spending plan that everyone in your family will follow; be sure to include new house expenses.
- Start a savings account for unexpected emergencies like extensive home repairs, illness and loss of employment.
- When using credit, always plan ahead for your purchases. Never make a major purchase on impulse. You need to have a plan for paying off that purchase. Ask yourself: "Do I really need to buy this now?"
- Protect your personal information and never share your Social Security number and account information with unknown companies and individuals.
- Never sign any document you don't understand, and don't allow anyone to pressure you into signing any contract you don't want to sign.
- Take advantage of free workshops on money and credit management from nonprofit groups in your local community.

The Future Is Now

Every step you take now to protect your home will return many benefits in the future for you and your family.

Sure, your life as a homeowner will present you with some challenges, but the rewards are many and should you get into financial difficulty, help is only a telephone call away. There are companies and organizations in your area committed to supporting the success of new homeowners like you, because they believe homeownership is good for families and good for neighborhoods.

You should be proud. You've achieved the dream of homeownership.

7. Glossary of Mortgage Terms

The following mortgage terms are referenced in *Your Step-By-Step Mortgage Guide* or relate to one of the steps in the homebuying process explained in this guide.

Adjustable-Rate Mortgage (ARM): Also known as a variable-rate loan, an ARM usually offers a lower initial rate than a fixed-rate loan, but your payment can go up at set times and by set amounts. The interest rate can change at a specified time, known as an adjustment period, based on a published financial index that tracks changes in the current financial market. ARMs also have caps and floors, or a maximum and minimum that the interest rate can change at each adjustment period, as well as over the life of the loan.

Amortization: Paying off a loan over a period of time and at the interest rate specified in the loan documents. The amortization of a loan includes the payment of interest and a part of the amount borrowed in each mortgage payment. For instance, on a 30-year fixed-rate mortgage, the amortization period is 30 years.

Annual Percentage Rate (APR): How much a loan costs over the loan term expressed as a rate. The APR includes the interest rate, points, broker fees and certain other credit charges a borrower is required to pay. This is not the interest rate that is used in setting your monthly payment.

Application Fee: The fee that a mortgage lender charges to apply for a mortgage.

Assets: Items of value an individual owns, such as money in savings accounts, stocks, bonds and automobiles.

Collateral: Property which is used as security for a debt. In the case of a mortgage, the collateral is the house and land.

Closing Costs: The costs to complete the real estate transaction. These costs are in addition to the price of the home and are paid at closing. They include points, taxes, title insurance, financing costs, items that must be prepaid or escrowed and other costs. Your lender is required to provide you with the Loan Estimate and the Closing Disclosure so that you will understand your closing costs.

Closing Disclosure: A standard form required by Federal law that discloses the fees and services associated with closing your mortgage loan, as well as information about the terms of your loan. It discloses the mortgage loan amount being financed, closing fees and charges, the payment schedule, the interest rate, the annual percentage rate and any other costs associated with the mortgage loan.

Co-Borrower: Any additional borrower(s) whose name(s) appear on loan documents and whose income and credit history are used to qualify for the loan. Under this arrangement, all parties involved have an obligation to repay the loan.

Co-Signer: A term used to describe an individual who signs a loan or credit application with another person and promises to pay if the primary borrower doesn't pay. A co-signer is different from a co-borrower in that a co-signer takes responsibility for the debt only when the borrower defaults.

Commitment Letter: A letter from your lender stating the amount of the mortgage loan it is willing to make to you, the number of years to repay the mortgage loan (the term), the interest rate, the mortgage loan origination fee, the annual percentage rate and the monthly payments.

Credit: The ability of a person to borrow money, or buy goods by paying over time. Credit is extended based on a lender's assessment of the person's financial situation and ability to pay.

Credit Bureau: A company that gathers information on consumers who use credit. Lenders will ask for your permission before getting a copy of your credit report from these companies.

Credit Report: A document used by the lender to examine your use of credit. It provides information on money that you've borrowed from credit institutions, the amount of available credit you have in your name and your payment history. Lenders obtain credit reports from credit bureaus.

Credit Score: A computer-generated number that summarizes your credit profile and predicts the likelihood that you'll repay future debts.

Debt: Money owed by one person or institution to another person or institution.

Default: Failure to fulfill a legal obligation, like paying your mortgage. A default includes failure to pay on a financial obligation, but may also be a failure to perform some action or service that is non-monetary. For example, a mortgage requires the borrower to maintain the property.

Down Payment: A portion of the price of a home, paid upfront and not part of your mortgage.

Earnest Money: Funds from you to the seller, held on deposit, to show that you're committed to buying the home. The deposit will not be refunded to you after the seller accepts your offer. It will go toward your total closing costs and any remaining amount will then go toward your down payment, unless one of the sales contract contingencies is not fulfilled.

Escrow: A deposit by a borrower to the lender of funds to pay property taxes, insurance premiums and similar expenses when they become due.

Equity: The value of your home above the total mortgage amount you owe for your home. If you owe $100,000 on your house but it is worth $130,000, you have $30,000 of equity. Your equity can fluctuate over time, based not only on your outstanding loan balance, but home price values in your local market area.

Fixed-Rate Mortgage: A mortgage with an interest rate that does not change during the entire term of the loan.

Foreclosure: A legal action that ends all ownership rights to a home when the homeowner fails to make a series of mortgage payments or is otherwise in default under the terms of the mortgage.

Hazard Insurance: Insurance coverage that provides compensation to the insured individual or family in case of property loss or damage.

Homeowners Insurance: A policy that protects you and the lender against losses due to fire, flood, or other acts of nature. It also offers protection against liability in the event that a visitor to your home is injured on your property.

Liabilities: Your debts and other financial obligations.

Lien: A claim or charge on property for payment of a debt. A mortgage is a lien, meaning the lender has the right to take the title to your property if you don't make the mortgage payments.

Loan: Money you borrow from a bank or other lender with a written promise to pay it back later. Banks and other lenders charge you fees and interest to borrow money.

Loan Estimate: A document that provides you with an estimate of the costs associated with your mortgage loan, as well as some other features of your loan. Your loan officer must provide you with a Loan Estimate within three business days of submitting the loan application.

Loan Officer: The person who takes applications for loans offered at the bank. The loan officer can answer your questions, provide written information explaining loan products and help you fill out a loan application.

Loan Origination Fees: Fees paid to your mortgage lender for processing the mortgage loan application. These fees are usually in the form of points. One point equals one percent of the mortgage amount. For instance on a $100,000 mortgage, one point is $1,000.

Lock-In Agreement: A written agreement from your lender guaranteeing a specific mortgage interest rate for a certain amount of time.

Mortgage: A loan using your home as collateral. In some states the term mortgage is also used to describe the document you sign (to grant the lender a lien on your home). It may also be used to indicate the amount of money you borrow, with interest, to purchase your house. The amount of your mortgage is usually the purchase price of the home minus your down payment.

Mortgage Broker: A home finance professional who specializes in bringing together borrowers and lenders to facilitate real estate mortgages.

Mortgage Insurance: Insurance that protects mortgage lenders against loss in the event of default by the borrower. If you make a down payment of less than twenty percent, your lender will generally require mortgage insurance.

Mortgage Lender: The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property review and the mortgage loan application process through closing.

Mortgage Note: A legal document that provides evidence of your indebtedness and your formal promise to repay the mortgage loan, according to the terms you've agreed to. The Note also explains the consequences of failing to make your monthly mortgage payments.

Mortgage Rate: The interest rate you pay to borrow the money to buy your house.

Mortgage Servicer: The financial institution or entity that is responsible for collecting your mortgage loan payments.

Principal: The amount of money borrowed from the lender to buy your house or the amount of the mortgage loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you repaid.

Real Estate Professional: An individual who provides services in buying and selling homes. A real estate professional who is a member of the National Association of REALTORS® is referred to as a Realtor®.

Title: Written evidence of the right to ownership in a property.

Title Insurance: Insurance providing protection against loss arising from problems connected to the title to your property.

Uniform Residential Loan Application: A standard mortgage loan application form on which you provide the lender with information required to assess your ability to repay the loan amount and to help the lender decide whether to lend you money.

Underwriting: The process that your lender uses to assess your eligibility to receive a mortgage loan. Underwriting involves the evaluation of your ability to repay the mortgage loan.

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Publication Number 853 ■