MORTGAGE 101:

# HOMEBUYER'S GUIDE

WHAT YOU NEED TO KNOW TO GET THROUGH THE MORTGAGE PROCESS


CALL YOUR SENIOR MORTGAGE PLANNER TODAY

**TIFFANY ANDREAE**

*NMLS# 435765*

WINTRUST MORTGAGE

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*Putting people at the center of everything we do to promote homeownership.*

# WHAT IS IN A **MORTGAGE?**

## LEARN MORE ABOUT TYPICAL MONTHLY PAYMENTS

### PRINCIPAL

The amount of money borrowed. Each monthly mortgage payment pays down some of the principal. Over the lifespan ("term") of the loan, the portion of your monthly payment that goes toward the principal will increase, while the portion that goes toward interest will decrease.

### INTEREST

The cost of borrowing the principal, charged as a percentage of the loan to be paid each month.

### MORTGAGE INSURANCE[2]

Also known as private mortgage insurance (PMI), this is an insurance policy that protects mortgage lenders in case a borrower fails to repay a loan. If the homeowner's down payment is less than 20% of the cost of the home, mortgage insurance is usually required.

### HOMEOWNERS INSURANCE

Also known as hazard insurance, this protects homeowners against unexpected events that affect the home, such as fire or storm damage. The cost of your insurance policy is spread out over 12 months and added to your monthly payments. Your lender holds that money in an escrow account and pays your annual insurance premium to your insurance company for you.

### PROPERTY TAXES

As with your homeowners insurance premium described above, your lender may collect a monthly amount in addition to your principal and interest and hold it in an escrow account. This money will be used by your lender to pay your property tax bills for you.

### ASSESSMENTS/HOMEOWNER ASSOCIATION (HOA) FEES

Fees charged for general upkeep of common areas and/or amenities in condominiums, townhomes, and designated communities. These are not bundled into a mortgage payment and must be directly paid to a homeowner association if applicable.

# BECOME A **PREMIERBUYER™**

## CLEAR THE WAY FOR A SMOOTH HOMEBUYING EXPERIENCE

**Becoming a PremierBuyer™ is the first thing you should do when you're ready to buy a home. Why?**

### DETERMINE HOW MUCH HOME YOU CAN AFFORD

Getting a strong sense of your budget saves time by narrowing down your search when you start looking for the right home.

### KNOW WHAT YOUR PAYMENTS WILL LOOK LIKE

You'll get a better idea of your down payment as well as your monthly principal, interest, taxes, and insurance payment. With a wide variety of loan options and financial assistance programs[3] available, it's helpful to know which types you qualify for, and which best suit your individual needs.

### BREAK THROUGH THE COMPETITION

PremierBuyers™ are more attractive to sellers, which will help put you ahead of other buyers in the market.

Once you become a PremierBuyer™, you will receive a PremierBuyer™ letter[4] to give to your real estate agent. Then, it's time to start house hunting! Keep in mind that a PremierBuyer™ letter is not a full approval, but a prequalification based on your credit report and other information you give your loan originator.

# BUYING A HOME

**After you find the home you want, here's how the loan process works.**

## APPLICATION

Once all parties have signed off on the purchase price and terms, you will receive a contract, which becomes the foundation of the new mortgage. This is the time to talk to your Wintrust Mortgage loan originator and apply for a loan.

Within three business days of applying, you will receive a loan estimate, which explains the costs and terms of the mortgage.

## RATE LOCK

You may choose to lock your interest rate at the time of application, or you may float your loan and lock your rate later. The closing date on the purchase contract will help determine the best time to lock your rate.

## APPROVAL

This happens between a completed application and prior to closing on your loan with Wintrust Mortgage. It includes:

- **Appraisal:** Wintrust Mortgage will order an appraisal on the property to support the purchase price of the property.

- **Title:** The title company will ensure the property being purchased has a clear title with no legal claims or liens against it. They conduct a title search to verify ownership and issue title insurance to protect both the buyer and lender from future legal issues regarding ownership.

- **Escrow Account:** An escrow account, sometimes called an impound account, is set up by your mortgage lender to pay certain property-related expenses, such as mortgage insurance, homeowners insurance, and flood insurance, if applicable, on your behalf when they come due.

- **Underwriting:** Underwriting is the process used by lenders to determine how likely a borrower is to be able to pay back the loan, and to determine if the collateral (property) supports the purchase price in the contract.

## CLEAR TO CLOSE

At least three business days before closing, you will receive a closing disclosure, which explains all costs in the transaction. On closing day, you will sign the final closing documents with a title company.

Your mortgage payments will usually begin on the first day of the second month after the closing date. For example, if you close on January 15, your first payment will likely be March 1.

# TYPES OF LOANS

**GET TO KNOW DIFFERENT LOAN PROGRAMS**

### FIXED-RATE MORTGAGE

A mortgage loan where the interest rate remains the same for the entire term of the loan, keeping monthly principal and interest payments consistent.

### ADJUSTABLE RATE MORTGAGE (ARM)[5]

A mortgage loan with an interest rate that changes, or "adjusts," throughout the term of the loan.

### GOVERNMENT-BACKED LOAN

Mortgage loans that are typically insured by one of three governmental agencies: the Federal Housing Administration (FHA)[6], the U.S. Department of Agriculture (USDA), and the U.S. Department of Veterans Affairs (VA)[7].

### CONVENTIONAL LOAN

Any mortgage loan that is not insured or guaranteed by the government.

### CONFORMING LOAN

A mortgage loan that satisfies the terms and conditions set forth by Fannie Mae, Freddie Mac, and their regulator, the Federal Housing Finance Agency (FHFA).

### NON-CONFORMING LOAN

A conventional loan that does not conform to Fannie Mae and Freddie Mac guidelines.

# THINGS TO CONSIDER DURING THE MORTGAGE PROCESS

## FOLLOW A SMOOTH PATH TO HOMEOWNERSHIP

### CHANGING JOBS

Changing jobs before or during the loan process can make it harder to qualify for a loan, particularly if that job is in a different line of work or at a lower rate of pay. Many loan programs require you to have a two-year work history.

### MAKING MAJOR PURCHASES

Large purchases—such as cars or home appliances—may impact your debt-to-income ratio (DTI) and your ability to qualify for a mortgage if you borrow money to finance those purchases. Taking on a new monthly payment can limit the loan amount you could qualify for or the loan products available to you.

### CREDIT SCORES

Your credit score helps lenders assess your ability to repay debt and determine loan approval, interest rates, and down payment requirements. A higher score typically results in better loan terms, so taking active steps to improve your credit score could be beneficial before you apply for a mortgage.

### SWITCHING BANKS OR MOVING MONEY BETWEEN ACCOUNTS

Funds for new accounts or large deposits will have to be explained, which can lengthen the verification process. Keep all withdrawal/deposit receipts if you are transferring money from investment or retirement accounts, so you can clearly show where money has moved.

**KEEP IN MIND, THIS LIST IS NOT COMPREHENSIVE. PLEASE CONSULT A LOAN ORIGINATOR FOR A FULL LIST OF THINGS TO CONSIDER.**

# MEET THE TEAM

## GET TO KNOW THE KEY PLAYERS IN THE HOMEBUYING PROCESS

### APPRAISER
An independent, licensed professional who determines the value of a property based on relevant data and on-site evaluation.

### BUYER'S AGENT
A real estate agent who represents the buyer in a real estate transaction.

### LISTING AGENT
A real estate agent who represents the seller in a real estate transaction.

### HOME INSPECTOR
Typically, a licensed professional who is trained to provide a written evaluation of the condition of a property in a real estate transaction.

### INSURANCE AGENT
A professional who assists buyers in obtaining homeowners insurance, a necessary step in obtaining a mortgage.

### REAL ESTATE LAWYER
A legal professional who specializes in aspects of buying and selling real estate properties.

### TITLE COMPANY
An organization that provides title insurance to a lender and purchaser of real estate.

### WINTRUST MORTGAGE LOAN ORIGINATOR
Our team member who works with you to set up the best loan structure to fit your needs.

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# BE PREPARED.

## USE THIS SIMPLE CHECKLIST TO KEEP TRACK OF REQUIRED DOCUMENTS AND INFORMATION

### THESE ITEMS ARE TYPICALLY NEEDED TO PROCESS YOUR MORTGAGE APPLICATION:

- ☐ Contract for purchase
- ☐ Most recent paystubs (30 days)
- ☐ Most recent W-2s and 1099s (2 years)
- ☐ Most recent federal income tax returns, including all schedules and attachments (2 years)
- ☐ Most recent bank statements for borrower and co-borrower(s), all pages for all accounts, even if blank (2 months)
- ☐ Most recent business tax returns and K-1s, if applicable (2 years)
- ☐ Self-employment profit/loss statement with balance sheet, if applicable
- ☐ Award letter or retiree statement for social security, retirement, or pension income, if applicable
- ☐ Most recent investment account statements for borrower and co-borrower(s), if applicable (2 months)
- ☐ Documentation of gift funds, if applicable
- ☐ Real estate attorney's phone number
- ☐ Real estate agent's phone number
- ☐ Insurance agent's phone number

# GLOSSARY OF MORTGAGE TERMS

**ADJUSTABLE-RATE MORTGAGE (ARM):**
A mortgage loan with an interest rate that changes, or "adjusts," throughout the term of the loan. ARMs typically have caps that limit the total amount that the interest can rise or fall over the life of the loan.

**AMORTIZATION:**
The gradual repayment of a mortgage loan by installments.

**ANNUAL PERCENTAGE RATE (APR):**
The interest rate plus any additional fees charged by the lender. This includes origination charges and other fees charged when the loan is made.

**APPRAISED VALUE:**
An independent assessment of the value of the property used to support the purchase price in a sales contract.

**APPRECIATION:**
The increase of your home's value over time.

**CLOSING COSTS:**
Sometimes called settlement costs, these are the upfront costs you will be charged to get your loan and transfer ownership of the property. They are part of what you will have to pay at closing.

**CLOSING DISLOSURE (CD):**
A document that explains the costs of the transaction. This document must be given to the buyer three days prior to closing to ensure no surprises at closing.

**CONVENTIONAL LOAN:**
The most common type of mortgage. Conventional loans are not insured by any government program such as FHA, VA, or USDA.

**DEBT-TO-INCOME (DTI) RATIO:**
A number equal to a borrower's total fixed, recurring monthly debts divided by gross monthly household income. Mortgage lenders assess a borrower's DTI when considering them for a loan to ensure payments can be made.

**DEPARTMENT OF VETERANS AFFAIRS (VA) LOANS:**
Loans that are guaranteed by the U.S. Department of Veterans Affairs. VA loans are offered to eligible U.S. veterans or their surviving spouses.

**DOWN PAYMENT:**
The first payment made on a mortgage, which is usually a percentage of the loan value. For example, a 20% down payment on a $100,000 loan will require $20,000 at closing. Most loan types require a down payment. Though many believe a 20% down payment is required to buy a home, this isn't always true.

**EARNEST MONEY:**
Funds, generally 3–5% of a home's purchase price, given to show serious intent about a purchase. The money goes into an escrow account until financing is arranged, at which point it is credited to the final purchase cost. If the sale doesn't go through, the seller generally keeps the money.

**EQUITY:**
The difference between what is owed on a home loan and its market value. Equity builds as a mortgage is paid down. It might also grow if local home values increase. This value may be borrowed against in the form of a home equity loan, a home equity line of credit, or a reverse mortgage.

**ESCROW ACCOUNT:**
Sometimes called an impound account, this is set up by your mortgage lender to pay certain property-related expenses, such as mortgage insurance, homeowners insurance, and flood insurance, if applicable, on your behalf when they come due.

**FEDERAL HOUSING ADMINISTRATION (FHA):**
A government agency that provides mortgage insurance on loans made by FHA-approved lenders.

**FIXED-RATE MORTGAGE:**
A mortgage loan where the interest rate remains the same for the entire term of the loan, keeping monthly principal and interest payments consistent..

**HOMEOWNERS INSURANCE:**
Homeowners insurance pays for losses and damage to your property if something unexpected happens, like a fire or burglary.

**INTEREST:**
The cost of borrowing the principal, calculated as a percentage rate of the full loan. The rate may be fixed or adjustable depending on the type of loan chosen by a borrower.

**INTEREST RATE LOCK:**
A written agreement in which the lender guarantees that your interest rate won't change between the offer and closing, as long as you close within the specified time frame and there are no changes to your application.

**LIABILITIES:**
A person's financial obligations. Liabilities include long-term and short-term debts.

**LOAN APPLICATION:**
The submission of a borrower's financial information in anticipation of a credit decision relating to a federally related mortgage loan, which shall include the borrower's name, the borrower's monthly income, the borrower's social security number to obtain a credit report, the property address, an estimate of the value of the property, the mortgage loan amount sought, and any other information deemed necessary by the loan originator. An application may either be in writing or electronically submitted, including a written record of an oral application.

**LOAN ESTIMATE (LE):**
A form that provides you with important information, including the estimated interest rate, monthly payment, and total closing costs for the loan. The loan estimate also gives you information about the estimated costs of taxes and insurance, and how the interest rate and payments may change in the future. In addition, the form indicates if the loan has special features that you will want to be aware of, like penalties for paying off the loan early (a prepayment penalty) or increases to the mortgage loan balance even if payments are made on time (negative amortization). If your loan has a negative amortization feature, it appears in the description of the loan product.

**LOAN-TO-VALUE (LTV) RATIO:**
A measure comparing the amount you are financing with the appraised value of the property. The higher your down payment, the lower your LTV ratio.

**MORTGAGE BANKER:**
An institution involved in the origination, processing, underwriting, and funding of mortgages. A mortgage banker may or may not service the loans that it originates and funds.

**MORTGAGE INSURANCE:**
Mortgage insurance protects the lender in the event that your property goes into foreclosure and the sale of the property is not enough to pay back your lender in full.

**PORTFOLIO LOANS:**
A loan serviced by the lender that issued the funds.

**PREMIERBUYER™:**
A Wintrust Mortgage service mark name for an individual who has been prequalified based on that borrower's credit report, limited asset and income documentation, and an approval from our automated underwriting system. All approvals are subject to underwriting guidelines.

**PREQUALIFICATION[8]:**
An estimate of how much money a homebuyer can borrow based on information such as income, debts, and anticipated down payment.

**TERM:**
The term of your mortgage loan is how long you have to repay the loan.

**TITLE:**
Written legal proof of homeownership. A title includes a physical description of the property, the names of any owners, and any liens on the home.

**TITLE INSURANCE:**
Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property. Lenders require borrowers to purchase a lender's policy. The seller typically purchases an owner's policy for the buyer.

**TRANSFER TAX:**
State or local tax payable when the title passes from one owner to another.

**UNDERWRITING:**
The process used by lenders to determine how likely a borrower is to be able to pay back the loan, and to determine if the collateral (property) supports the purchase price in the contract. This process includes determining if a transaction meets investor requirements.

# COUNT ON WINTRUST MORTGAGE

## Service

Wintrust Mortgage is a part of Wintrust Financial Corporation. Unlike many lenders, our holding company offers a range of financial services beyond mortgages with additional stability provided by a multibillion-dollar holding company.

## Flexibility

With lending ability in all 50 states, our nationwide reach gives you access to flexible programs and loan solutions, including:

- Becoming a PremierBuyer™
- First-time homebuyer programs
- Down-payment assistance programs
- Special grants
- In-house processing, underwriting, closing, and servicing
- Digital mortgage tools, including an online application, secure document portal, and online payment portal

## Expertise

Our loan originators are mortgage experts who often live in the communities they serve, meaning they know their neighborhoods inside and out. Think of your loan originator as a friendly guide, ready to help navigate the changing market and find the right mortgage for your individual needs.

# NOTES

# READY TO START YOUR HOMEOWNERSHIP JOURNEY, OR STILL ON THE FENCE?

Become a PremierBuyer™ with no commitments, and give yourself a strong start. Get started at the link below!

## www.apply.wintrustmortgage.com

TIFFANY **ANDREAE**
Senior Mortgage Planner
NMLS #435765
**DIRECT: 224.770.2012**
Cell: 847.209.2200

tandreae@wintrustmortgage.com
www.MortgagePlanByTiffany.com
201 S. Hough St , 2nd Floor
Barrington, IL 60010



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1. PremierBuyer™. A PremierBuyer™ is our service mark name for an individual who has been prequalified based on their credit report, limited asset and income documentation, and an approval from our automated underwriting system. All approvals are subject to underwriting guidelines.

2. Mortgage Insurance. Mortgage Insurance may be required if Loan-to-Value ('LTV') ratio exceeds 80%.

3. Underwriting. All approvals are subject to underwriting guidelines. Programs, rates, terms, and conditions are subject to change at any time and without notice. Restrictions apply depending on program selected.

4. PremierBuyer™ letter. A PremierBuyer™ letter is our service mark name for a prequalification based on the borrower's credit report, limited asset and income documentation, and an approval from our automated underwriting system. All approvals are subject to underwriting guidelines.

5. ARM. Adjustable-Rate Mortgage (ARM) Interest rate is variable and subject to increase after settlement; Annual Percentage Rate (APR) may increase in the future.

6. FHA Disclosure. FHA loans will require an up-front mortgage insurance premium and are also subject to a monthly mortgage insurance premium.

7. VA. A funding fee is required on VA loans.

8. Prequalification. A pre-qualification is based on our preliminary estimates based on limited income and credit information provided without review of supporting documentation. This is not a commitment to lend. Pre-qualification status is subject to change or cancellation if borrower no longer meets applicable regulatory or loan requirements.

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WINTRUST MORTGAGE

EQUAL HOUSING LENDER