

Module 3 Workbook

Mortgage Basics

How mortgages work, what separates the loan types, why APR matters more than the rate, and what mortgage insurance is actually costing you. Use this workbook with Module 3 online at yourmortgagetoolbox.com/learn/mortgage-basics/ or in a class led by an instructor. Type directly into the shaded boxes on screen, or print it and write by hand.

Name

Date started

Instructor or class (if any)

How to use this workbook

1. Read or attend each lesson, then fill in the matching page.
2. Use real numbers from your own situation where asked. Nothing here is submitted anywhere. It stays with you.
3. Take the self-assessment quiz before you check the answers online.
4. Finish with your action plan. That plan is the real goal of this module.

Lessons in this module

Lesson	Topic	Done
3.1	How a Mortgage Actually Works	☐
3.2	Fixed vs. Adjustable Rate Mortgages	☐
3.3	Loan Types: Conventional, FHA, VA, and USDA	☐
3.4	Interest Rate vs. APR: The Number That Actually Matters	☐
3.5	Mortgage Insurance: PMI and MIP	☐
3.6	How to Read a Loan Estimate	☐
Quiz	Self-assessment (8 questions)	☐

Educational use only. Your Mortgage Toolbox is not a lender, broker or financial advisor. Estimates and guidelines vary by lender, loan program, state and date. Confirm your own numbers with a licensed loan officer or a HUD-approved housing counselor.

LESSON 3.1

How a Mortgage Actually Works

A mortgage is a loan secured by real property. That means if you stop making payments, the lender can foreclose, take the property, and recover what they're owed.

Key ideas

Key idea	In my own words
The Amortization Schedule	
Why Extra Payments Matter More Than You Think	
The Difference Between Principal and Interest	

Pro tip: Double your principal and cut your term in half. Look at your monthly mortgage statement and find the principal portion of that month's payment. Add that exact amount as an extra principal payment on top of your regular payment. The following month, find that month's principal amount and.

Worksheet A: Run it in the Mortgage Payment Calculator

Open the Mortgage Payment Calculator at yourmortgagetoolbox.com and run your own numbers. Record what you find.

Scenario I ran (price, down payment, rate, etc.)

Result I want to remember

What surprised me

Notes

LESSON 3.2

Fixed vs. Adjustable Rate Mortgages

Every mortgage falls into one of two categories: fixed rate or adjustable rate.

Key ideas

Key idea	In my own words
Fixed Rate Mortgages	
Adjustable Rate Mortgages (ARMs)	
ARM Caps: Your Protection Against Rate Spikes	
When an ARM Makes Sense	

Rule of thumb: If you're buying a home you plan to stay in long-term and you're not certain you'll refinance before the fixed period ends, a 30-year fixed rate is almost always the safer choice.

Worksheet B: How this applies to me

What applies to my situation

One question I still have

One action I will take

Notes

LESSON 3.3

Loan Types: Conventional, FHA, VA, and USDA

Not all mortgages are the same product. The loan type affects your minimum down payment, credit score requirements, mortgage insurance costs, and what properties you can use it on.

Key ideas

Key idea	In my own words
Conventional Loans	
FHA Loans	
VA Loans	
USDA Loans	

Worksheet C: Run it in the Pre-Qualification Calculator

Open the Pre-Qualification Calculator at yourmortgagetoolbox.com and run your own numbers. Record what you find.

Scenario I ran (price, down payment, rate, etc.)

Result I want to remember

What surprised me

Notes

LESSON 3.4

Interest Rate vs. APR: The Number That Actually Matters

When lenders advertise mortgage rates, they always show two numbers: the interest rate and the APR (Annual Percentage Rate).

Key ideas

Key idea	In my own words
What the Interest Rate Is	
What APR Includes	
How to Shop for the Best Rate	
Understanding Discount Points	

The rule: Same rate. Same scenario. Three lenders. Lowest lender fees wins. Don't let a lender confuse you by mixing rate and fees into a single number. Keep them separate and the comparison becomes obvious.

Worksheet D: How this applies to me

What applies to my situation

One question I still have

One action I will take

Notes

Mortgage Insurance: PMI and MIP

Mortgage insurance is one of the most misunderstood costs in a home purchase.

Key ideas

Key idea	In my own words
PMI: Private Mortgage Insurance (Conventional Loans)	
When PMI Goes Away	
MIP: Mortgage Insurance Premium (FHA Loans)	
VA: No Monthly Mortgage Insurance	
USDA: Monthly Fee, Different Name	

Fannie/Freddie seasoning rules apply when using appreciated value to cancel PMI. Even if your home has appreciated well past 80% LTV, Fannie Mae and Freddie Mac won't allow PMI cancellation based on current market value until the loan is at least 2 years old. Between years 2 and 5, the bar is.

The FHA trap: FHA loans are often the right starting point for buyers with lower credit scores or limited savings. But the ongoing MIP is expensive, and many buyers don't realize it won't automatically go away. When your credit and equity improve, refinancing out of FHA into conventional and.

Worksheet E: How this applies to me

What applies to my situation

One question I still have

One action I will take

Notes

How to Read a Loan Estimate

Within three business days of receiving your loan application, lenders are required by law to provide a Loan Estimate (LE).

Key ideas

Key idea	In my own words
Page 1: The Big Picture	
Page 2: Closing Cost Detail	
The Three-Day Comparison Window	
Loan Estimate vs. Closing Disclosure	

Why the appraisal fee on your Loan Estimate is probably inflated. The appraisal sits in Section B. The lender orders it through an appraisal management company, and you are not permitted to shop for it yourself. Section B fees carry zero tolerance under federal rules: if the actual appraisal cost.

Worksheet F: Run it in the Total Mortgage Payment & Cash to Close Calculator

Open the Total Mortgage Payment & Cash to Close Calculator at yourmortgagetoolbox.com and run your own numbers. Record what you find.

Scenario I ran (price, down payment, rate, etc.)

Result I want to remember

What surprised me

Notes

Module 3 Quiz

Type the letter of your answer, or write it in by hand. Then check your results online at yourmortgagetoolbox.com/learn/mortgage-basics/ or ask your instructor for the answer key.

- | | |
|--|----------------------|
| 1. In the early years of a 30-year mortgage, most of your monthly payment goes to: | My answer |
| A. Interest | <input type="text"/> |
| B. Principal | |
| C. Escrow | |
| <hr/> | |
| 2. A 7/1 ARM means the interest rate is fixed for: | My answer |
| A. 1 year, then adjusts every 7 years | <input type="text"/> |
| B. 7 years, then adjusts annually | |
| C. 7 months, then is renegotiated | |
| <hr/> | |
| 3. Which loan type requires NO down payment and NO monthly mortgage insurance? | My answer |
| A. FHA | <input type="text"/> |
| B. USDA | |
| C. VA | |
| <hr/> | |
| 4. APR is a better comparison tool than the interest rate alone because it: | My answer |
| A. Reflects the lender's credit score requirement | <input type="text"/> |
| B. Incorporates fees and other loan costs into the percentage | |
| C. Shows the rate after your first refinance | |
| <hr/> | |
| 5. PMI on a conventional loan can be removed when your loan balance reaches: | My answer |
| A. 90% of the original purchase price | <input type="text"/> |
| B. 80% of the original purchase price (78% automatically) | |
| C. 50% of the original purchase price | |
| <hr/> | |
| 6. FHA mortgage insurance (MIP) differs from conventional PMI because: | My answer |
| A. MIP is less expensive in all cases | <input type="text"/> |
| B. MIP often lasts the life of the loan and requires refinancing to remove | |
| C. MIP is only charged for the first 5 years | |
| <hr/> | |
| 7. On the Loan Estimate, services in Section C are ones you: | My answer |
| A. Cannot change or negotiate | <input type="text"/> |
| B. Can shop around for and potentially save money on | |
| C. Are not required to pay | |
| <hr/> | |
| 8. Paying one discount point upfront on a mortgage: | My answer |
| A. Increases your interest rate by 0.25% | <input type="text"/> |
| B. Costs 1% of the loan amount and typically lowers your rate | |
| C. Eliminates the need for mortgage insurance | |

My score (out of 8)

Topics I want to review

PUTTING IT TO WORK

My Action Plan

Pick the three or four actions that matter most for you. Be specific: what, how much, and by when.

Next 30 days

31 to 60 days

61 to 90 days and beyond

My Module 3 readiness check

- ☐ I can explain: How a Mortgage Actually Works
- ☐ I can explain: Fixed vs. Adjustable Rate Mortgages
- ☐ I can explain: Loan Types: Conventional, FHA, VA, and USDA
- ☐ I can explain: Interest Rate vs. APR: The Number That Actually Matters
- ☐ I can explain: Mortgage Insurance: PMI and MIP
- ☐ I can explain: How to Read a Loan Estimate

Questions for my housing counselor or loan officer

Next: continue with the next module at yourmortgagetoolbox.com/learn/, and try the calculators at yourmortgagetoolbox.com to run your own numbers.

This workbook is for educational purposes only. Your Mortgage Toolbox is not a mortgage lender, broker, or financial advisor. Always consult a licensed professional before making financial decisions. Rates, fees, program requirements and tax rules change; confirm current requirements with your lender or a qualified professional.